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## REGULATORY OVERVIEW

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We are a premium logistics facilities provider with all operations based in China. The following is a summary of PRC laws and regulations that are of material relevance to our business operations in China.

### DEVELOPMENT OF PROJECTS

#### Land for Development

Although all land in the PRC is owned by the State or is collectively owned, individuals and entities may obtain land use rights and hold such land use rights for development purposes.

On April 12, 1988, the NPC amended the Constitution, permitting the legal transfer of land use right. On December 29, 1988, the Standing Committee of NPC amended the Land Administration Law of the PRC (《中華人民共和國土地管理法》), permitting the legal transfer of land use right.

Under the Interim Regulations on Grant and Assignment of the State-owned Urban Land Use Right of the PRC (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), the “**Interim Regulations on Grant and Assignment**”) promulgated by the State Council on May 19, 1990, China adopts a system of granting and assigning state-owned land use right. A land user shall pay a land premium to the State as the consideration for the grant of the land use right by the State for a specified period of time, during which the land user may assign, lease, mortgage or otherwise commercially exploit the land use right. According to the Law on Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), the “**Urban Real Estate Administration Law**”) promulgated by the Standing Committee of NPC on July 5, 1994, became effective in January 1995, and amended in August 2007 and August 2009 respectively, and the Interim Regulations on Grant and Assignment (《出讓和轉讓暫行條例》), the land administration authorities at city or county level shall enter into a land grant contract with the land user to grant land use right. The land user shall pay the land premium as stipulated by the land grant contract. After paying the land premium in full, the land user may register with the land administration authorities and obtain a land use right certificate evidencing the acquisition of land use right.

On August 31, 2006, the State Council promulgated the Circular on Strengthening Land Control (《關於加強土地調控有關問題的通知》). The circular requires to establish a system for uniformly publicizing the minimum rate standards of industrial land grant to uniformly formulate and publicize the minimum rate standards of industrial land grant in all localities. The minimum rate standards of industrial land grant shall not be less than the sum of the cost of obtaining the land, the preliminary cost of land development and the related expenses collected as required. The industrial land must be transferred by way of tender, auction or listing at a price not less than the minimum rates as publicized.

On September 28, 2007, the MLR promulgated the Rules Regarding the Grant of Right to Use State-Owned Construction Land By Way of Tender, Auction and Listing (《招標拍賣掛牌出讓國有建設用地使用權規定》), which were effective from November 1, 2007. The Rules further clarify the procedures for the grant of land use right by way of tender, auction and listing. Pursuant to the Rules, land for operational purposes such as industry (including warehouse

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land, but excluding mining land), business, tourism, entertainment and commercial residential housing, and a land parcel with two or more potential users must be granted by way of tender, auction or listing-for-sale. The grantee of land use right may only have the land registered and obtain the land use right certificate after full settlement of the land premium as specified in the relevant land grant contract. No land use right certificate shall be issued before full settlement of the land premium or in proportion to the land premium paid.

On January 3, 2008, the State Council issued the Circular on Promoting the Economical and Intensive Use of Land (Guo Fa [2008] No. 3) (《關於促進節約集約用地的通知》) (國發[2008] 3 號), which provides that for land currently used for industrial purpose, under the precondition that it accords with the relevant planning and that the use of land is not changed, if the land utilization ratio and the plot ratio are increased, no additional land fee should be collected. For newly added land for industrial purpose, control indicators should be further enhanced and no additional land fee should be collected for any part that the GFA of a plant exceeds the control indicators for the plot ratio of such plant. The land user and land fee for land used for industrial and operational purposes must be determined by way of tender, auction or listing.

On May 11, 2009, the MLR issued the Circular on Adjusting the Minimum Rate Standards for Industrial Land Grant (Guo Tu Zi Fa [2009] No.56) (《關於調整工業用地出讓最低價標準實施政策的通知》) (國土資發 [2009] 56 號)). According to the Circular, for industrial projects which fall within the category of priority industries of the provinces (districts/cities) with an intensive use of land, the base price for land grant may be determined at a level of not less than 70% of the price standard for the class of land where they locate. The base price for industrial land grant shall not be less than the sum of the cost of obtaining the land, the preliminary cost of land development and the related expenses collected as required.

On August 10, 2009, the MLR and Ministry of Supervision of the PRC promulgated the Circular on Further Implementing the Industrial Land Grant System (《關於進一步落實工業用地出讓制度的通知》). The circular provides that the industrial land shall be granted through tender, auction or listing. During the industrial land grant period, the grantee may increase the plot ratio without paying any additional land premium upon approval, provided that such increase conforms with the plan and that the use of land is not changed.

On November 18, 2009, the MOF, the MLR, the PBOC, Ministry of Supervision and the National Audit Office issued the Circular on Further Tightening Control over Income and Expenses of Land Grant (《關於進一步加強土地出讓收支管理的通知》). According to the circular, the term of payment by installment for land premium as stipulated in the land grant contract shall not exceed one year in principle or, in the case of special projects, the payment shall be fully settled within two years as collectively decided by local land grant coordination and decision-making authorities. The down payment shall not be less than 50% of the land premium.

On May 11, 2011, the MLR issued the Opinions on Maintaining and Improving the System for the Grant of Land by way of Tender, Auction and Listing (《關於堅持和完善土地招標拍賣掛牌出讓制度的意見》). According to the opinions, on the basis of determining the base price of land grant in accordance with the law, factors affecting the development and utilization of land, such as land price

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and time of payment, development and construction cycle, construction requirements, degree of economical and intensive use of land and performance of previous grant contracts by the enterprises, shall be taken as bid evaluation conditions. On March 16, 2012, the MLR issued the Opinions on Promoting the System of the Economical and Intensive Use of Land (《關於大力推進節約集約用地制度建設的意見》), which require maintaining and improving the system for the grant of land by way of tender, auction and listing. Land use should be determined by planning and the land premium and land user should be determined by market competition. Policies encouraging the economical and intensive use of industrial land should be encouraged, and the requirement that no additional land premium will be charged when enhancing the utilization ratio and plot ratio of industrial land should be improved. A land pricing policy for priority industries is adopted. For industrial projects which fall within the category of priority industries of the provinces (districts/cities) with an intensive use of land, the base price may be determined at a level of not less than 70% of the “Minimum Rate Standards for Industrial Land”.

### Development of a Project

In accordance with the Measures for Administration of Examination and Approval of Construction Land (《建設用地審查報批管理辦法》) promulgated by the MLR on March 1, 1999 and amended in November 2010, and the Measures for Administration of Preliminary Examination of Construction Project land (《建設項目用地預審管理辦法》) promulgated by the MLR on July 25, 2001, and amended on November 1, 2004 and November 29, 2008 respectively and taking effect from January 1, 2009, the constructor or developer must make a preliminary application for the construction land to the relevant competent land administration authorities. After receiving the preliminary application, the competent land administration authorities shall carry out preliminary examination on matters related to the construction project in compliance with the overall land utilization plans and national land supply policy. The competent land administration authorities at city or county level will sign a land grant contract with the land user and issue an Approval Certificate for Construction Land to the constructor or developer.

### Idle Land

According to the Urban Real Estate Law, those who obtain land use right for real estate development by grant must develop the land according to the purposes and within the development time frame as agreed under the land use right grant contract. Those who fail to commence development of the land within one year from the construction commencement date stipulated in the land grant contract may be charged an idle land fee of up to 20% of the land premium, and those who fail to commence development within two years may be deprived of land use right without compensation, except where the delay in commencement is due to force majeure, actions of governments or relevant government departments, or preliminary work necessary for the commencement of development.

According to the Regulations on the Disposal of Idle Land (《閒置土地處置辦法》) promulgated by the MLR on April 28, 1999, amended in June 2012 and taking effect in July 2012, land with the following conditions is considered to be idle:

- the holder of the state-owned construction land use right fails to commence developing the state-owned construction land within one year after the construction commencement

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date as agreed or stated in the contract of compensated use of state-owned construction land or the land allocation decision;

- the area of the construction land developed upon commencement of development is less than 1/3 of the planned total area for development and construction, and the development and construction of the state-owned construction land has been suspended for more than one year;
- the amount invested in the land is less than 25% of the total investment, and the development and construction of the state-owned construction land has been suspended for more than one year; or
- fails to commence development and construction within one year from the date of actual delivery of land, if the construction commencement date is not agreed or stated or not clearly agreed or stated.

According to the above regulations, for idle land where construction and development has not commenced for one year, the competent department of land and resources at city or county level shall charge idle land fee at 20% of the cost of land grant or allocation. In the event that the construction and development has not commenced for two years, the competent department of land and resources at city or county level shall, upon the approval of the People's Government with approval authorities, issue the Decision on Recovering the Right to Use State-owned Construction Land to a holder of state-owned construction land use right, and recover the right to use the state-owned construction land without compensation. The above regulations also list the situations where the idleness of land is due to the reasons attributable to the governments as well as the ways of handling idle land under such situations.

According to the Notice on Strengthening the Disposing of Idle Land (《關於加大閒置土地處置力度的通知》) promulgated by the MLR on September 8, 2007, the surcharge on idle land shall be 20% of the land grant premium in principle and where the land can be recovered without compensation in accordance with the law, it shall be recovered.

On January 3, 2008, the State Council issued a Notice on Promoting Economization of Land Use (Guo Fa [2008] No.3) (《關於促進節約集約用地的通知》(《國發[2008]第3號》)), which urges the full and effective use of existing construction land. The notice also emphasizes the strict enforcement of the current rules on idle land. If a piece of land has been idle for over two years, it must be forfeited without compensation in accordance with laws and regulations, and rearranged for any other uses; if the land does not meet the statutory conditions for forfeiture, it must be timely dealt with and fully used through changing usage, replacement by parity value, temporary usage or incorporation into government reserves. If a piece of land has been idle for over one year but less than two years, an idle land fee must be collected at a price of 20% of the transfer or allotment price. Loans and financing from being listed on a stock market should not be provided to illegal land use projects. Where a loan is provided or a financing plan is approved in an inappropriate manner, the relevant persons should be pursued for liability.

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### **Planning of a Project**

Under the Law on Urban and Rural Planning of the PRC (《中華人民共和國城鄉規劃法》), promulgated by the Standing Committee of NPC on October 28, 2007 and amended on April 24, 2015, a developer who has obtained land use rights by grant shall, after obtaining approval for a construction project and signing a land use rights grant contract, apply to the urban planning authority for the Permit for Construction Site Planning.

The Law on Urban and Rural Planning of the PRC further provides that a developer who has a proposed construction project within the planning area of a city or town must, after obtaining a Permit for Construction Site Planning, prepare the necessary planning and design work, and submit the detailed planning and design report, together with the land use rights certificate, to the urban planning authority or the town government designated by the provincial government, and apply for the Permit for Construction Work Planning.

### **Construction of a Project**

According to the Measures for Administration of Construction Permit for Construction Projects (《建築工程施工許可管理辦法》) promulgated by MOHURD on June 25, 2014, becoming effective from October 25, 2014, a developer engaging in the construction and decoration of various kinds of houses and buildings as well as the ancillary facilities shall apply for a construction permit from the competent construction administration authorities at county level or above where the construction is located before the commencement of the construction.

According to the Administrative Regulations on the Quality Management of Construction Engineering (《建設工程質量管理條例》) promulgated by State Council on January 30, 2000, where a construction project owners, in violation of these Regulations, commence construction activities without obtaining a construction permit or with its construction commencement report not being approved, such construction project owners shall be ordered to cease such construction activities and take remedial action within a specified period of time, and be subject to a fine of between 1% and 2% of the contractual price for the construction project in question.

### **Completion of a Project**

According to the Regulations on the Administration of Construction Projects Quality (《建設工程質量管理條例》) promulgated by State Council on January 30, 2000, the Administrative Measures on the Filing of Acceptance Inspection upon Completion of House Construction and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by MOHURD on April 7, 2000 and became effective on April 7, 2000, and amended on October 19, 2009, and the Provisions on Acceptance Inspection Upon Completion of House Construction and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated by MOHURD in December 2013, after the completion of real estate projects, the real estate developer must organize an acceptance inspection and, after passing the inspection, file with the relevant governmental authorities on such completion of acceptance inspection. A real estate development project shall not be delivered for use until and unless it has carried out and passed the acceptance

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inspection. Where a real estate project is developed in phases, acceptance inspection may be carried out by phase.

### **Construction Safety**

Under relevant laws and regulations such as the Laws of Safe Production of the PRC (《中華人民共和國安全生產法》), promulgated by the Standing Committee of NPC in November 2002 and revised on August 27, 2009 and August 31, 2014, the property development enterprise should apply to the supervisory department on safety for the registration of supervision for work safety in construction before the commencement of construction. Constructions without such registration will not be granted a construction work commencement permit by the supervisory body. Contractors for the construction should establish the objectives and measures for work safety and improve the working environment and conditions of workers in a planned and systematic way. A work safety protection scheme should also be set up to carry out the work safety job responsibility system. At the same time, contractors should adopt corresponding site work safety protective measures according to the work protection requirements in different construction stages and such measures shall comply with the labor safety and hygiene standards of the State.

Under the Construction Law of the PRC (《中華人民共和國建築法》) promulgated and revised by the Standing Committee of NPC in November 1997 and April 2011, respectively, general construction contractor shall take overall responsibility for the safety in the construction site. Each subcontractor is required to comply with the protective measures adopted by general contractor and to purchase insurance policies covering accident injury for its employees on site.

### **Civil Air Defense Property**

Pursuant to the Law on Civil Air Defense of the PRC (《中華人民共和國人民防空法》) promulgated by Standing Committee of the NPC on October 29, 1996, and revised on August 27, 2009, basements that will be used for air defense in time of war shall be constructed in new buildings of cities for civil use as required by the State. The Civil Air Defense Law encourages the public to invest in the construction of civil air defense properties and investors in civil air defense properties are permitted to use (including lease) and manage civil air defense properties in time of peace and profit therefrom. However, such use may not impair their functions as civil air defense properties. The design, construction and quality of civil air defense properties must conform to the protection and quality standards established by the State. On November 1, 2001, the National Civil Air Defense Office issued the Administrative Measures for Developing and Using the Civil Air Defense Property at Ordinary Times (《人民防空工程平時開發利用管理辦法》) and the Administrative Measures for Maintaining the Civil Air Defense Property (《人民防空工程維護管理辦法》), which specify how to use, manage and maintain civil air defense properties.

### **Mortgages of Real Estate**

In accordance with the Urban Real Estate Administration Law (《中華人民共和國城市房地產管理法》), the Guarantee Law of the People's Republic of China (《中華人民共和國擔保法》) promulgated by Standing Committee of the NPC on June 30, 1995 and

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implemented on October 1, 1995, and the Measures on the Administration of Mortgages of Property in Urban Areas (《城市房地產抵押管理辦法》) promulgated by MOHURD in May 1997 and as amended on August 15, 2001, when a mortgage is lawfully created over the ownership of a building, a mortgage is simultaneously created on the land use rights of the land on which the building is situated. In the case that a mortgage is created over the land use rights of State-owned land acquired through means of grant, the buildings on the land shall also be mortgaged. Within 30 days after a property mortgage contract is signed, the parties to the mortgage must register the mortgage with the property administration authority at the location where the property is situated. A property mortgage contract comes into effect on the date of registration of the mortgage. If a mortgage is created on the property in respect of which a building ownership certificate has been obtained lawfully, the registration authority shall make an entry under the “third party rights” item on the original building ownership certificate and then issue a certificate of third party rights to the mortgagee. If a mortgage is created on under-construction commodity building, the registration authority shall record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved shall re-register the mortgage of the real property after issuance of the certificates evidencing the ownership of the property.

### **Property Leasing**

Under the Administrative Measures on the Lease of Commodity Housing (《商品房屋租賃管理辦法》) issued by MOHURD on December 1, 2010, the parties to a lease agreement shall go through the lease registration and filing process with the competent construction (real estate) departments of the municipalities directly under the PRC Government, cities and counties where the housing is located within 30 days after the lease agreement is signed. For those who fail to comply with the above regulations, such competent departments may impose a fine of between RMB1,000 and RMB10,000 per lease.

### **Environmental Protection**

The laws and regulations governing the environmental protection for real estate developments in China include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Prevention and Control of Noise Pollution Law of the PRC (《中華人民共和國環境噪聲污染防治法》), the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) and the Administrative Regulations on Environmental Protection for Development Projects (《建設項目環境保護管理條例》). Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer and approved by the relevant environmental regulatory authority, before the relevant authority will grant an approval for the commencement of construction of the real estate development. In addition, upon completion of the construction project, the developers are required to apply to the relevant environmental protection administrations for final acceptance examination in respect of any ancillary environmental protection facilities. Construction projects are approved for use after passing the said acceptance examination.

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### Trademarks

The Trademark Law of the PRC (《中華人民共和國商標法》) was promulgated in August 1982 (amended on February 22, 1993, October 27, 2001 and August 30, 2013) and Implementation Regulations on the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) was promulgated by the State Council on August 3, 2002 and amended on April 29, 2014. These laws and regulations provide the basic legal framework for the regulations of trademarks in China. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

The Trademark Office under SAIC is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of 10 years. Twelve months prior to the expiration of the 10-year term, an applicant can renew the application and reapply for trademark protection.

### LABOR PROTECTION AND SOCIAL INSURANCE

As our operation is mainly based in China, our PRC subsidiaries are required to comply with Chinese labor-related laws and regulations and provide compensation and other benefits to our employees, such as provision of vocational trainings and contribution to social insurance and housing provident funds.

According to the Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated by NPC on July 5, 1994 and amended on August 27, 2009, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labor protection gear that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Law on Labor Contract of the PRC (《中華人民共和國勞動合同法》), which was promulgated by NPC on June 29, 2007 and amended on December 28, 2012, and the Implementation Regulations on Labor Contract Law (《勞動合同法實施條例》) (Order No.535 of the State Council), which was promulgated on September 18, 2008 and became effective since the same day, regulate both parties establish labor relationship through a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated under the Law on Labor Contract and the Implementation Regulations on Labor Contract Law that a labor contract



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must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Pursuant to the Law on Labor Contract, labor contracts concluded prior to the enactment of the said law and subsisting within the validity period of the said law shall continue to be honored. With respect to a circumstance where a labor relationship has already been established but no formal contract has been made, a written labor contracts shall be entered into within one month from the effective date of the Law on Labor Contract law.

The Employment Promotion Law of the PRC (《中華人民共和國就業促進法》), which became effective on January 1, 2008 and amended on April 24, 2015, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (《社會保險費徵繳暫行條例》), the Regulations on Work Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance of the PRC (《中華人民共和國社會保險法》) (Order No.35 of the President), which was promulgated on October 28, 2010 and implemented on July 1, 2011, has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was promulgated on April 3, 1999 and amended on March 24, 2002, housing provident fund contributions paid up in deposit by an individual employee and housing provident fund contributions paid up in deposit by his or her employer shall belong to the individual employee.

### APPLICABLE MAJOR TAXES

Since our revenue is mainly derived from our operations in China, we are subject to Chinese taxation regimes.

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### Enterprise Income Tax

Prior to the EIT Law and its implementation rules that became effective on January 1, 2008, both domestic enterprises and foreign-invested enterprises were subject to a unified EIT of 25%. EIT Law also provides that enterprises established under the laws of foreign jurisdictions with “de facto management body” located in China are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Under the implementation rules of the new EIT Law, a “de facto management body” is defined as a body that has real and overall management control over the business, personnel, accounts and properties of an enterprise.

In addition, dividends paid by a PRC subsidiary to its foreign shareholder will be subject to a withholding tax at a rate of 10% unless such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. According to the tax treaty entered into between the Mainland China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in the Mainland China to its shareholders in Hong Kong will be subject to a withholding tax at a rate of 5% if such Hong Kong shareholder directly holds a 25% or more interest in the Mainland China enterprise.

On February 3, 2015, the SAT issued the Public Notice on Certain Issues for the Enterprise Income Tax on Incomes from Indirect Property Transfers between Non-resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的通知》) (Guo Shui Han No.7) (the “**Circular No.7**”).

In accordance with Circular No.7, if a non-resident enterprise indirectly transfers assets (including equity interests) in a PRC resident enterprise by entering into arrangements without reasonable commercial purposes but to evade EIT, the nature of this indirect transfer shall be reclassified and recognized as a direct transfer of assets of a PRC resident enterprise. Assets include (i) properties of an establishment or place in the PRC, (ii) real estate in the PRC or (iii) equity investment in a PRC resident enterprise and other assets directly held by such non-resident enterprise and for which the proceeds from the transfer of such assets shall be subject to EIT as specified by the PRC tax laws (collectively the “**PRC Taxable Assets**”). An indirect transfer of the PRC Taxable Assets refers to transactions with the same or similar substantive results as a direct transfer of the PRC Taxable Assets arising from a transfer by a non-resident enterprise of equity interest or other similar interest in an overseas enterprise (excluding the PRC resident enterprises registered overseas) that directly or indirectly holds the PRC Taxable Assets, including a change in overseas enterprise’s shareholders as a result of reorganization of such non-resident enterprise.

The relevant provisions in Circular No. 7 are not applicable if the overall arrangement regarding the indirect transfer of the PRC Taxable Assets meets any of the following circumstances: (1) such non-resident enterprise obtains income from an indirect transfer of PRC Taxable Assets by acquiring and disposing of the equity interests of the same offshore listed company in a public market (“**Public Market Safe Harbor**”); or (2) such non-resident enterprise directly holds and transfers the PRC Taxable Assets in accordance with applicable tax treaty or arrangement which exempts the transfer from relevant EIT in the PRC.

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### **Business Tax**

Under the Interim Regulations on Business Tax of the PRC (《中華人民共和國營業稅暫行條例》) promulgated by the State Council on December 13, 1993 and revised on November 10, 2008, effective from January 1, 2009, and the Implementation Rules of the Interim Regulations on Business Tax of the PRC (《中華人民共和國營業稅暫行條例實施細則》) promulgated by the MOF on December 25, 1993 and revised on December 15, 2008 and October 28, 2011 respectively, providing labor services stipulated therein, transferring intangible assets and sale of real estate in Mainland China are subject to business tax. The applicable tax rate for leasing of real estate is 5% as it falls within the scope of service.

### **Value-added Tax (“VAT”)**

According to the Notice on the All-out Launch of the Pilot Program of the Levying Value-added Tax in lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》), which was promulgated by the Ministry of Finance and the State Administration of Taxation on March 23, 2016 and implemented on May 1, 2016, the value-added tax rather than the business tax will be levied on the leasing and selling of the real estate and the transferring of the land use rights, and the value-added tax rate is 11% since May 1, 2016.

### **Urban Land Use Tax**

Pursuant to the Interim Regulations on Urban Land Use Tax of the PRC (《中華人民共和國城鎮土地使用稅暫行條例》) promulgated by the State Council on September 27, 1988 and revised on December 7, 2013, the urban land use tax is levied based on the area of the relevant land, the annual tax of urban land shall be between RMB0.6 and RMB30.0 per square meter.

### **Real Estate Tax**

Under the Interim Regulations on Real Estate Tax of the PRC (《中華人民共和國房產稅暫行條例》) promulgated by the State Council on September 15, 1986, effective from October 1, 1986 and amended on January 8, 2011, real estate tax is charged at the rate of 1.2% if it is calculated on the basis of the residual value of a building which is the original value of a building minus certain percentage ranging from 10% to 30%, and at the rate of 12% if it is calculated on the basis of the rental of the real estate.

### **Deed Tax**

Under the Interim Regulations on Deed Tax of the PRC (《中華人民共和國契稅暫行條例》) promulgated by the State Council on July 7, 1997 and effective from October 1, 1997, a deed tax is chargeable to transferees (whether an individual or otherwise) of land (including grant of state-owned land use rights, grant of state-owned land use rights and etc.), building ownership within the territory of mainland China under the provisions of this Regulation. Deed tax rate is from 3% to 5%, the applicable deed tax rate is subject to determination by local governments of provinces, autonomous regions and municipalities directly under the central government in light of the local

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conditions, within the foresaid range and report their effective tax rates to the MOF and SAT for the record.

### Stamp Duty

Under the Interim Regulations on Stamp Duty of the PRC (《中華人民共和國印花稅暫行條例》) promulgated by the State Council effective from October 1, 1988 and amended on January 8, 2011 for acceptance of property lease, cargo transportation, storage and custody or certificates with contract nature, the duty rate is 0.1% of the rental amount.

### Urban Maintenance and Construction Tax

Under the Interim Regulations on Urban Maintenance and Construction Tax of the PRC (《中華人民共和國城市維護建設稅暫行條例》) promulgated by the State Council on February 8, 1985 and amended on January 8, 2011, any taxpayer of consumption tax, value-added tax or business tax, whether an enterprise or an individual, is liable for an urban maintenance and construction tax. The tax rate is 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer not in any urban area, county or town.

On October 18, 2010, the State Council issued the Circular on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), which provides that, starting from December 1, 2010, the Interim Regulations on Urban Maintenance and Construction Tax of the PRC (《中華人民共和國城市維護建設稅暫行條例》) promulgated in 1985 shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and policies on urban maintenance and construction tax promulgated by the State Council and the competent finance and tax authorities under the State Council since 1985 shall also be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

### Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge (《徵收教育費附加的暫行規定》) promulgated by the State Council on April 28, 1986 and revised on June 7, 1990, August 20, 2005 and January 8, 2011, any taxpayer of value-added tax, business tax or consumption tax, whether an individual or an enterprise, is liable for an education surcharge, unless such taxpayer is required to pay a rural area education surcharge as provided by the Circular of the State Council on Raising Funds for Schools in Rural Areas (《國務院關於籌措農村學校辦學經費的通知》).

On October 18, 2010, the State Council issued the Circular on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), which provides that, starting from December 1, 2010, the Interim Provisions on Imposition of Education Surcharge (《徵收教育費附加的暫行規定》) promulgated in 1986 shall be applicable to

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foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and policies on education surcharge promulgated by the State Council and the competent finance and tax authorities under the State Council since 1986 shall also be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

### FOREIGN EXCHANGE CONTROL

#### Foreign Exchange Administration

The principal law governing foreign currency exchange in the PRC is the Foreign Exchange Administration Regulations (《外匯管理條例》). The Foreign Exchange Administration Regulations was enacted by the State Council on January 29, 1996 and implemented on April 1, 1996. On January 14, 1997 and August 5, 2008, the State Council amended the Foreign Exchange Administration Regulations. According to the Foreign Exchange Administration Regulations currently in effect, international payments in foreign currencies and transfer of foreign currencies under current account shall not be restricted. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC Governmental authorities.

Pursuant to the Regulation of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), promulgated on June 20, 1996 by the PBOC and which became effective on July 1, 1996, the Foreign-Invested Enterprises (“FIE”), may only buy, sell or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial supporting documents and, in the case of capital account item transactions, obtaining approvals from the SAFE.

On August 29, 2008, the SAFE promulgated the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) (the “SAFE Circular 142”) regulating the conversion by a foreign-invested enterprise of its foreign currency registered capital into Renminbi. The SAFE Circular 142 provides that the Renminbi fund converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. The use of such Renminbi fund may not be altered without approval, and such Renminbi fund may not in any case be used to repay any Renminbi loans that were taken out but that have not been utilized. Violations of the SAFE Circular 142 could result in severe monetary penalties. On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “SAFE Circular 19”), which became effective on June 1, 2015 and replace the SAFE Circular 142. Under the SAFE Circular 19, the restriction is abolished that the using the Renminbi fund converted from foreign currency registered capital of a foreign-invested enterprise for equity investments within the PRC. Meanwhile, the use of such Renminbi should still obey the restrictions as set in this circular, such as it cannot be directly or indirectly used for the payment

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beyond the business scope of the enterprises or the payment prohibited by national laws and regulations; investment in securities unless otherwise provided by laws and regulations; granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and paying the expenses related to the purchase of real estate not for self-use, except for the foreign-invested real estate enterprises.

### Stock Option Plans

On December 25, 2006, PBOC promulgated the Administrative Measures for Individual Foreign Exchange (《個人外匯管理辦法》). On January 5, 2007, SAFE issued the Implementation Rules of the Administrative Measures for Individual Foreign Exchange (《個人外匯管理辦法實施細則》), or the Individual Foreign Exchange Rules, which, among other things, specify registration requirements for a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On February 15, 2012, SAFE promulgated Circular of the SAFE on Relevant Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in the Share Incentive Schemes of Overseas-Listed Companies (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (“**Share Incentive Schemes Circular 7**”), which terminated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas Publicly-Listed Company (《境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程》) issued by SAFE in March 2007.

Under the SAFE regulations, in particular, Share Incentive Schemes Circular 7, all PRC residents who participate in an employee stock incentive plan or stock option plan of an overseas publicly-listed company are required, through the PRC subsidiary of the overseas publicly-listed company, to jointly entrust a PRC agent to handle foreign exchange registration with SAFE or its local counterpart and complete certain procedures relating to the share incentive schemes such as opening account and capital transfer. PRC residents include PRC nationals or foreign citizens having been consecutively residing in PRC for not less than one year, acting as directors, supervisors, senior management personnel or other employees of PRC companies affiliated with such offshore listed company. A PRC agent could be a PRC subsidiary of such overseas publicly-listed company participating in the share incentive scheme or another PRC institution qualified for asset trusteeship as designated by the PRC subsidiary and in accordance with PRC laws. The PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The foreign exchange proceeds received by the PRC residents from sale of shares under share incentive plans granted by the overseas publicly-listed company must be remitted to bank accounts in China opened by the PRC agents.

Further, a Notice Concerning Individual Income Tax on Earnings from Employee Stock Options (《關於個人股票期權所得稅徵收個人所得稅問題的通知計劃》), jointly issued by the Ministry of Finance and SAT, provides that domestic companies that implement employee share option programs must file the employee share option plans and other relevant documents with local tax

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authorities having jurisdiction over the companies before implementing such plans, and must file share option exercise notices and other relevant documents with local tax authorities before exercise by their employees of any share options.

### Dividend Distribution

The principal laws governing dividend distributions by our PRC Subsidiaries include the PRC Company Law (《中華人民共和國公司法》), which was promulgated on December 29, 1993 and became effective on July 1, 1994 and was subsequently amended on December 25, 1999, August 28, 2004 and October 27, 2005 and on December 28, 2013. Dividend distribution by wholly foreign-owned enterprises (“WFOE”) and Sino-foreign equity joint ventures (“EJV”) are further governed by the PRC Law Concerning Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》), which was promulgated on April 12, 1986 and revised on October 31, 2000, and its Implementation Regulations (《中華人民共和國外資企業法實施細則》) promulgated on December 12, 1990 and revised on April 12, 2001 and February 19, 2014, the PRC Law on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》) promulgated on July 8, 1979 and revised on March 15, 2001 and the Implementation Regulations (《中華人民共和國中外合資經營企業法實施條例》) promulgated on September 20, 1983 and revised on July 22, 2001, January 8, 2011 and February 19, 2014.

Under these laws and regulations, PRC companies, including WFOEs and EJVs, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting principles. In addition, PRC companies, including domestic companies, WFOEs and EJVs are required to set aside each year at least 10% of their after-tax profit based on PRC accounting principles to their statutory general reserves funds until the cumulative amount of such reserve fund reaches 50% of their registered capital. These reserves are not distributable as cash dividends. Furthermore, EJVs and WFOEs in the PRC may also be required to set aside individual funds for employee welfare, bonuses and development, at the discretion of such PRC companies and as stipulated in their articles of association. These reserves or funds are not distributable as dividends.

### Circular 37

The SAFE promulgated the Circular on Issues Relating to the Administration of Foreign Exchange in Overseas Investment, Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular 37”) on July 4, 2014 which rescinded the Notice on Issue Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Entities (《關於境內居民通過特殊目的公司融資及返程投資外匯管理有關問題的通知》) (“Circular 75”). Subject to the Circular 37, domestic resident, individuals or institutions, are required to register with the bureau of foreign exchange administration before they invest in special purpose vehicles with legitimate assets or equity interests inside and outside the PRC. Failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions imposed on the subsequent foreign exchange activities of the relevant domestic residents, including the remitting back of dividends and profits. Domestic residents who invest special purpose vehicles with

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legitimate assets or equity interests inside and outside the PRC prior to the implementation of the Circular 37, but fail to conduct the foreign exchange registration of overseas investments shall submit explanatory statement and state the reasons to the bureau of foreign exchange administration. The bureau of foreign exchange administration may allow complementary registration under the principles of legality and legitimacy. In the event of any violation of foreign exchange regulations by domestic residents who apply for the foresaid complementary registration, administrative penalty would be imposed in accordance with relevant laws. According to the Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular 13**”) which was promulgated on February 13, 2015 and became effective on June 1, 2015, the above mentioned registration under Circular 37 will be handled directly by the bank that has obtained the financial institution identification codes issued by the foreign exchange regulatory authorities and that has opened the capital account information system at the foreign exchange regulatory authority in the place where it is located and the foreign exchange regulatory authorities shall perform indirect regulation over the direct investment-related foreign exchange registration via banks.

### COMPANY LAW AND FOREIGN INVESTMENT LAW

The establishment, operation and management of corporate entities in China is governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**Company Law**”), which was promulgated on December 28, 2013 and implemented on March 1, 2014.

As the Company, incorporated in the Cayman Islands with limited liabilities, is a foreign investor under Chinese laws, all of its PRC subsidiaries are foreign-invested enterprises. We are therefore subject to laws and regulations relating to foreign investment in China.

The establishment procedures, approval procedures, foreign exchange matters, accounting practices, taxation and labor matters of wholly foreign-owned enterprises and equity joint venture enterprises are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) and its implementation rules (the “**WFOE Laws**”) and the Equity Joint Venture Law of the PRC (《中華人民共和國中外合資經營企業法》) and its implementation rules (the “**JV Laws**”) respectively.

According to the Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) which became effective on September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity interests of a domestic enterprise or subscribes to the increased capital of a domestic enterprises in order to convert the domestic enterprise into a foreign-invested enterprise; or (ii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets, or purchases the assets of a domestic enterprise and invests such assets to establish a foreign-invested enterprise. Furthermore, under the M&A Provisions, foreign acquisitions under specified circumstances shall be subject to the approval of MOFCOM, rather than local commercial authorities and such requirement shall not be evaded by domestic investment of a foreign-invested enterprise or by any other means.