
REGULATIONS

The following is a summary of the material laws and regulations or requirements that affect our business activities in China or the rights of our shareholders to receive dividends and other distributions from us. We will maintain ongoing communications with government authorities regarding latest developments and requirements of new regulations and take necessary and timely measures.

REGULATIONS RELATING TO VALUE-ADDED TELECOMMUNICATION SERVICES

Value-added telecommunications services

An extensive regulatory scheme governing telecommunication services, including value-added telecommunication services and infrastructure telecommunications services, is promulgated by the State Council, MIIT, and other relevant government authorities. Value-added telecommunication service operators may be required to obtain additional licenses and permits in addition to those that they currently have given new laws and regulations may be adopted from time to time. In addition, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the telecommunication activities.

On September 25, 2000, the State Council promulgated the Telecommunication Regulation of the People’s Republic of China, or the Telecommunications Regulations, as last amended on February 6, 2016, to regulate telecommunications activities in China. According to the Telecommunications Regulations, there are two categories of telecommunication activities, namely “infrastructure telecommunications services” and “value-added telecommunications services.” Pursuant to the Telecommunications Regulations, operators of value-added telecommunications services, or VATS, shall be approved by MIIT, or its provincial level counterparts, and obtain a license for value-added telecommunications business, or VAT License. The Measures for the Administration of Telecommunications Business Licensing, or the Licenses Measures, issued on March 1, 2009 and most recently amended on July 3, 2017 for the purpose of strengthening the administration of telecommunications business licensing, which set forth more specific provisions regarding the types of licenses required to operate VATS and the application for and the approval, use and administration of a telecommunications business permit. According to the Licenses Measures and Telecommunications Regulations, any entity conducting VATS without obtaining the VAT License or conducting business beyond the authorized scope on the VAT License may be subject to correction, confiscation of the illegal income, a fine ranging from three to five times the amount of the illegal income (where there is no illegal income, or the illegal income is less than RMB50,000, a fine ranging from RMB100,000 to RMB1 million), and suspension of business operation.

Under the Licenses Measures, where any entity conducting VATS change the name, legal representative or registered capital within the validity period of its VAT License, it shall file an application for updating the VAT License to the competent authority within thirty days immediately after the registration or filing with the State Administration for Market

REGULATIONS

Regulation. Any entity conducting VATS who fail to comply with the required procedures may be ordered to make rectifications, warned or imposed a fine of RMB5,000 to RMB30,000 by the relevant authorities. MIIT issued the Interim Administrative Measures on Telecommunications Services Quality Supervision on January 11, 2001, as amended on September 23, 2014, which apply to the supervision and administration of the licensed telecommunication operators within the territory of the PRC. According to the Interim Administrative Measures on Telecommunications Services Quality Supervision, MIIT supervises and administers the quality of the telecommunication service provided by telecommunication service providers pursuant to applicable laws and regulations. Where a telecommunication operator violates the telecom service standards and injures the lawful rights and interests of the users, such telecommunication operator may be subject to a rectification order, a warning or fines ranging from RMB500 to RMB10,000.

The Classification Catalogue of Telecommunications Services (2015 Version), as last amended on June 6, 2019, defines (1) “domestic multi-party communications services” as real-time interactive or on-demand voice and image communication services realized domestically between two points or among multiple points by virtue of a multi-party communication platform, public communication network or the internet, (2) “contact center services” as business consultation, information consultation and data query services provided to users through the public communication network, by utilizing database technology and call center system which is connected to the public communication network or the internet, and by establishing an information base after information collection, processing and storage, (3) “information services” as the information services provided for users through public communications networks or internet by means of information gathering, development, processing and the construction of the information platform, which include, among others, internet information services and non-internet information service, (4) “internet data center services” as the services including the placement, proxy maintains, system configuration and management services provided for users’ servers or other internet/network-related equipment, the lease of equipment such as database systems or servers and lease of their storage spaces, rental agency service of telecommunication line and export bandwidth and other application services, which are in a form of outsource lease by utilizing corresponding engine room equipment; and (5) “Store-and-forward services” as message sending services provided for users based on the store-and-forward mechanism, which include the services of voice mail, e-mail, store-and-forward of fax.

In July 2013, MIIT promulgated the Regulations on Protection of Personal Information of Telecommunications and Internet Users, or Regulations on Network Information Protection, effective on 1 September 2013, to enforce the Network Information Protection Decision, promulgated by the Standing Committee of the PRC National People’s Congress in December 2012, with the goal of enhancing and protecting information security and privacy on the Internet. The Regulations on Network Information Protection require Internet operators to take various measures to ensure the privacy and confidentiality of user information, including supervision and management over those third-party services provided by Internet operators.

REGULATIONS

On June 8, 2020, MIIT promulgated the Notice regarding Strengthening the Management of Call Center Business, or the Call Center Business Notice, which has further strengthening the management on the admittance, codes, accessing, operation activities and certain other items. According to the Call Center Business Notice, for a call center business operator, instant return visits, information consulting and other outbound call services shall only be provided with the consent of users. However, outbound call services without the consent of users shall not be provided for commercial marketing purposes.

Telecommunication network information service

Measures for Management of Telecommunication Network Code Number Resources, together with the Catalog of the Telecom Code Number Resources under Classified Administration, was issued by MIIT on January 29, 2003 and amended on September 23, 2014, or the Telecommunication Network Code Numbers Measures, according to which, code resources shall be owned by the State, and any telecommunication network information service providers and call center service providers who need to use telecommunication network code numbers shall be approved by MIIT or its provincial level counterparts to use telecommunication network code numbers to provide relevant services, and the time limit and scope of such approval shall be identical with that of the VAT License or other related approval documents obtained by such entity. The approved telecommunication network code numbers of users shall enter into a required agreement with the competent infrastructure telecommunications service operators, and file with the competent counterparts of MIIT. Telecommunication network code number users shall commence using telecommunication network code numbers allocated to them within the specified time limit and reach the minimum scale if any or the expected service capability if there is no such minimum scale requirement. In addition, no telecommunication network code number user is permitted to assign or lease telecommunication network code number, nor to use beyond the scope or in more than one local network. Any entity using telecommunication network code numbers without approval or beyond the authorized scope or time limit or assigning or leasing telecommunication network code number without approval may be subject to correction, confiscation of the illegal income, fine ranging from three to five times the amount of the illegal income (where there is no illegal income, or the illegal income is less than RMB50,000, a fine ranging from RMB50,000 to RMB1 million). On January 1, 2005, the Interim Administrative Measures on Telecommunication Network Code Number Resource Occupation Fee and the Standard of Telecommunication Network Code Number Resource Occupation Fee, jointly enacted by NDRC, the MOF and MIIT, entered into force. According to the Interim Administrative Measures on Telecommunication Network Code Number Resource Occupation Fee, telecommunication network code numbers are state property and the telecommunication service operators occupying or using telecom code numbers shall pay occupation fee accordingly to the applicable governmental authorities.

On April 15, 2004, MIIT issued the Notice on Certain Issues Regarding Standardizing Short Messaging Service, or SMS Notice. The SMS Notice provides that service providers are required to expressly advise users of the charge standards, collection methods and subscription and cancellation procedures. In addition, operators shall provide SMS strictly in accordance

REGULATIONS

with users' requirements. The SMS Notice also specifies that operators shall examine the contents of short messages and automatically record and store for five months the time of sending and receiving the short messages, the mobile numbers or codes of the sending and receiving terminals.

On May 19, 2015, the MIIT published the Provisions on the Administration of Short Message Services, or the Short Message Provisions, which became effective on June 30, 2015. The Short Message Provisions further clarify that short messaging services providers and short message content providers shall not send commercial short messages to users without the users' consent or request, and shall provide convenient and effective ways for users to refuse receipt of such short messages.

On August 31, 2020, the MIIT promulgated the Administrative Provisions on Short Messaging and Voice Call Services (Draft for Comment) or the Draft, which add requirements for voice call services and further clarify the service specifications of short message services and voice call services, on the basis of the Short Message Provisions. The Draft requires that telemarketing calls shall not be made if users specifically refuse so.

The MIIT issued a Notice on the Official Commercial Use of Mobile Communication Resale Business, or the Official Notice on April 28, 2018, which took effect on May 1, 2018. the Official Notice requires the enterprise which engages in mobile communication resale business to establish network security management systems, deploy corresponding management personnel, implement the real-name registration for telephone users, protect users' personal information, effectively implement the prevention and crackdown of communication information fraud, and standardize its user service agreements and financial management systems.

REGULATIONS RELATING TO CYBER SECURITY, DATA SECURITY AND PRIVACY PROTECTION

Cyber Security

On December 28, 2000, the SCNPC enacted the Decision on the Protection of Internet Security, as amended on August 27, 2009, which provides that the following activities conducted through the internet are subject to criminal liabilities: (1) gaining improper entry into any of the computer information networks relating to state affairs, national defensive affairs, or cutting-edge science and technology; (2) violation of relevant provisions of the State in the form of unauthorized interruption of any computer network or communication service, as a result of which the computer network or communication system cannot function normally; (3) spreading rumor, slander or other harmful information via the internet for the purpose of inciting subversion of the state political power; (4) stealing or divulging state secrets, intelligence or military secrets via internet; (5) spreading false or inappropriate commercial information; or (6) infringing on the intellectual property.

REGULATIONS

On December 13, 2005, the Ministry of Public Security issued the Provisions on the Technical Measures for Internet Security Protection, which took effect on March 1, 2006. These regulations require internet service providers to take proper measures including anti-virus, data back-up, keeping records of certain information such as the log-in and exit time of users, and other related measures, and to keep records of certain information about their users for at least 60 days. On June 22, 2007, the Ministry of Public Security, State Secrecy Bureau, State Cryptography Administration and the Information Office of the State Council jointly promulgated the Administrative Measures for the Multi-level Protection of Information Security, under which the security protection grade of an information system may be classified into five grades. Companies operating and using information systems shall protect the information systems and any system equal to or above level II as determined in accordance with these measures, a record-filing with the competent authority is required.

The Cybersecurity Law, as adopted by the National People's Congress on November 7, 2016, has come into force on June 1, 2017. Regarded as the fundamental law in the area of cybersecurity in China, the Cybersecurity Law regulates network operators and others from the following perspectives: the principle of Cyberspace sovereignty, security obligations of network operators and providers of network products and services, protection of personal information, protection of critical information infrastructure, data use and cross-border transfer, network interoperability and standardization. Network operators shall, according to the requirements of the rules for graded protection of cybersecurity, fulfill security protection obligations, so as to ensure that the network is free from interference, damage or unauthorized access, and prevent network data from being divulged, stolen or falsified. In addition, any network operator to collect personal information shall follow the principles of legitimacy, rationality and necessity and shall not collect or use any personal information without due authorization of the person whose personal information is collected. Each individual is entitled to require a network operator to delete his or her personal information if he or she finds that collection and use of such information by such operator violate the laws, administrative regulations or the agreement by and between such network operator and such individual; and is entitled to require any network operator to make corrections if he or she finds errors in such information collected and stored by such network operator. Such network operator shall take measures to delete the information or correct the error.

On December 28, 2021, the CAC and other regulatory authorities jointly revised and promulgated the Cybersecurity Review Measures (《网络安全审查办法》), which became effective on February 15, 2022. According to Articles 5 and 7 of the Cybersecurity Review Measures, enterprises shall apply for cybersecurity review under the following circumstances: (i) critical information infrastructure operators purchasing network products and services and internet platform operators carrying out data processing activities in a manner which affects or may affect national security; and (ii) internet platform operators holding personal information of more than one million users and seeking a listing overseas. According to Article 16 of the Cybersecurity Review Measures, the competent PRC government authority may initiate cybersecurity review if the authority believes that any network product, service or data processing activity affects or is likely to affect national security.

REGULATIONS

On November 14, 2021, the CAC published the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “Draft Cybersecurity Regulation”), which governs the use of networks to carry out data processing activities, and the supervision and management of data security in the PRC. The Draft Cybersecurity Regulation mainly focuses on the data processing activities of data processors. It provides that data processors conducting the following activities shall apply for cybersecurity review: (i) merger, reorganization or separation of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (ii) listing abroad (國外上市) of data processors processing over one million users’ personal information; (iii) listing in Hong Kong which affects or may affect national security; (iv) other data processing activities that affect or may affect national security. “Data processor” is defined as “an individual or organization that independently makes decisions on the purpose and manner of data processing activities” in the Draft Cybersecurity Regulation. The Draft Cybersecurity Regulation also provides that operators of large internet platforms that set up headquarters, operation centers or R&D centers overseas shall report to the national cyberspace administration and competent authorities.

Data Security

On June 10, 2021, the SCNPC promulgated the Data Security Law, which came into effect on September 1, 2021. According to the Data Security Law, the enterprises conducting data processing activities shall establish and improve their data security management systems, organize data security trainings and adopt corresponding technical measures and other necessary measures, with a view to guaranteeing the data security. Chapter 4 of the Data Security Law provides for the obligations of general data processing and data security protection, including: (1) establishing and improving the whole-process data security management system; (2) strengthening risk monitoring and properly handling data security incidents; and (3) legally and properly collecting and using data. According to the materials provided by the company, the company has established a relatively complete data security management system, organized and carried out data security education and training, adopted corresponding technical measures and organizations to protect data security, formulated a data security incident management system, carried out risk monitoring and assessment, handled information security level protection filing and assessment for call center service platforms, and performed corresponding network security level protection obligations. In addition, pursuant to the Data Security Law, the State shall establish a data security system to administer data at different levels and by different categories, and impose specific compliance obligations on processors of important data, including: (1) specifying the person and institution responsible for data security and implementing data security protection responsibilities; (2) conducting regular risk assessment of its data processing activities; and (3) fulfilling the regulatory requirements for transmitting important data overseas. Further, remedial measures shall be taken immediately upon discovery of any data security defects or bugs, and users shall be timely notified and competent authorities shall be informed in accordance with relevant provisions if any data security incident occurs. If an enterprise conducting data processing activities fails to meet such requirements, it would be subject to regulatory penalties, including fine, suspension of the relevant business, close of business for rectification and revocation of the relevant business permit or business license.

REGULATIONS

Privacy Protection

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have enacted legislation on Internet use to protect personal information from any unauthorized disclosure. On May 28, 2020, the National People's Congress of the PRC approved the PRC Civil Code, which took effect on January 1, 2021. Pursuant to the PRC Civil Code, the personal information of a natural person shall be protected by the laws. Any organization or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others. The ICP Measures prohibit an ICP operator from insulting or slandering a third-party or infringing the lawful rights and interests of a third-party.

On December 29, 2011, the MIIT promulgated the Several Provisions on Regulating the Market Order of Internet Information Services, which became effective on March 15, 2012. On December 28, 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection to enhance the legal protection of information security and privacy on the internet. The Provisions on Protection of Personal Information of Telecommunications and Internet Users promulgated by the MIIT on July 16, 2013 contains detailed requirements on the use and collection of personal information as well as the security measures to be taken by internet service providers. Specifically, (1) the users' personal information shall not be collected without prior consent; (2) the personal information shall not be collected other than those necessary for internet service providers to provide services; (3) the personal information shall be kept strictly confidential; and (4) a series of detailed measures shall be taken to prevent any divulge, damage, tamper or loss of personal information of users.

Pursuant to the Notice of the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security on Legally Punishing Criminal Activities Infringing upon the Personal Information of Citizens, issued in April 2013, and the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues regarding Legal Application in Criminal Cases Infringing upon the Personal Information of Citizens, which was issued on May 8, 2017 and took effect on June 1, 2017, the following activities may constitute the crime of infringing upon a citizen's personal information: (1) providing a citizen's personal information to specified persons or releasing a citizen's personal information online or through other methods in violation of relevant national provisions; (2) providing legitimately collected information relating to a citizen to others without such citizen's consent (unless the information is processed, not traceable to a specific person and not recoverable); (3) collecting a citizen's personal information in violation of applicable rules and regulations when performing a duty or providing services; or (4) collecting a citizen's personal information by purchasing, accepting or exchanging such information in violation of applicable rules and regulations. Pursuant to the PRC Civil Code, the collection, storage, use, process, transmission, provision and disclosure of personal information shall follow the principles of legitimacy, properness and necessity.

REGULATIONS

The Cybersecurity Law provides that network operators shall obtain the individual’s prior consent before collecting the personal data of such individual and take necessary technical measures or other appropriate measures to protect the personal data, and shall not provide the personal data to any third-party without the individual’s prior consent unless such personal data has been processed in a proper way that a specific person will not be identified. For the operators of crucial information infrastructure, the personal data and crucial data must be stored within the territory of the People’s Republic of China. Where such data need to be provided to overseas parties due to business requirements, a security assessment shall be conducted before the transmission of the data.

On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law of the People’s Republic of China (the “**Personal Information Protection Law**”), which came into effect on November 1, 2021. The law aims to protect the rights and interests of personal information and regulate the processing of personal information. The Personal Information Protection Law stipulates certain important concepts with respect to personal information processing: (a) “personal information” refers to all kinds of information related to identified or identifiable natural persons recorded by electronic or other means, excluding the information processed anonymously; (b) “processing of personal information” includes the collection, storage, use, processing, transmission, provision, disclosure and deletion, etc. of personal information; and (c) “personal information processor” refers to an organization or individual that independently determines the purpose and method of the processing in the processing of personal information.

The Personal Information Protection Law also stipulates the obligations in the circumstance of entrusted processing. Where a personal information processor entrusts others with the processing of personal information, a) the personal information processor shall agree with the agent on substantial matters like purpose, method of entrusted processing, type of information and protection measures, as well as supervise the processing activities of the agent; b) the agent shall process personal information strictly within the scope as agreed, and ensure the security of the personal information processed and assist the personal information processor to perform his legal obligations.

The regulatory frameworks regarding privacy issues in many jurisdictions are constantly evolving and can be subject to significant changes from time to time. Any failure to comply with applicable regulations could result in regulatory enforcement actions against us and materially and adversely affect our business, results of operations and financial condition. See “Risk Factors – Risks Related to Our Business and Industry – Our business is subject to a variety of evolving laws and regulations regarding cybersecurity, data security and data privacy. Any failure of our platform to comply with applicable laws and regulations could harm our business, operating results and financial condition.”

REGULATIONS

Unauthorized Calls and Text Messages

We could be required to comply with rules and regulations regarding the control and management of unauthorized calls. The Proposal for Special Action against Unauthorized Calls promulgated by the MIIT, the Supreme People’s Court, the Supreme People’s Procuratorate and the other ten departments of PRC Government on July 18, 2018 which decide to organize a special action to comprehensively combats the unauthorized phone calls nationwide for one and half a year from July 2018. Outbound calling centers shall comprehensively regulate business qualification, self-operation and outsourcing business. Before conducting telemarketing services, telephone subscribers’ consent shall be obtained in advance.

The Work Plans for Promoting the Special Campaign Program for Comprehensive Action against Unauthorized Calls issued by MIIT issued and came into effect on October 27, 2018, pursuant to which, enterprises including basic telecommunications service providers and call center service providers shall coordinate with the MIIT and its local authorities to control and rectify unauthorized calls, and call center service provider like us shall strictly control the channels for unauthorized calls, including but not limit to (1) establish forbidden call lists so that the telemarketing calls could not reach those end-users who have explicitly refused to be reached by telemarketing calls of a particular industry or business, (2) strictly control the timing and frequency of active call-out and reserve the record of such call within a certain period of time (generally not less than 30 days), and (3) improve technical abilities regarding prevention and monitoring of unauthorized calls and risk precaution.

In addition, the Short Message Provisions and the Draft also impose similar requirement on short message and voice call service providers, and without the users’ consent or request, they shall not make telemarketing calls or shall cease to make such calls to users when the latter explicitly present their refusal after their early consent.

While we have established certain systems and take certain acts to control the unauthorized calls, we cannot assure you that our current systems and acts will be sufficient or effective under applicable laws and regulations. See “Risk Factors – Risks Related to Our Regulatory Compliance – Our brand image, business and results of operations may be adversely affected by third-party misconduct and misuse of our solutions, many of which are beyond our control.”

REGULATIONS ON CLOUD COMPUTING BUSINESS

On January 6, 2015, the State Council issued the Opinions of the State Council on Promoting the Creative Development of Cloud Computing and Cultivating New Business Types in the Information Industry, which provided the principles on promoting the development of cloud computing and the innovation of cloud computing industry.

On November 24, 2016, MIIT issued the Announcement on Seeking Comments on the Notice on Regulating Business Activities in the Cloud Services Market, or Draft Cloud Business Announcement. The Draft Cloud Business Announcement provided that, to provide

REGULATIONS

cloud services within the territory of China, business operators shall meet relevant requirements on capital, staff, premises and facilities, pass the relevant technical evaluation, and obtain the corresponding business license for value-added telecommunications services in accordance with the Administrative Measures on Telecommunications Business Operating License and the Circular of the MIIT of the People’s Republic of China on Further Regulating the Market Access for Businesses of Internet Data Centers and Internet Services Providers. Moreover, cloud service operators shall build a cloud service platform within the territory of the PRC. If the related servers need to connect with internet sites outside of the PRC, the data shall be routed through the international internet gateways approved by the MIIT, and the cloud service operators shall not build or use other channels via leased lines or VPN to connect with foreign sites. No formal regulations in connection with the Draft Cloud Business Announcement is promulgated to date.

REGULATIONS RELATING TO FOREIGN INVESTMENT

Foreign Investment Law

The Foreign Investment Law, promulgated by the National People’s Congress on March 15, 2019, has come into effect on January 1, 2020 and has replaced the major existing laws and regulations governing foreign investment in the PRC, including the Sino-foreign Equity Joint Ventures Enterprises Law, the Sino-foreign Co-operative Enterprises Law, the Wholly Foreign-invested Enterprise Law, and together with their implementation rules and ancillary regulations. Pursuant to Foreign Investment Law, the existing foreign invested enterprises established prior to the effective of the Foreign Investment Law may keep their corporate organization forms within five years after the effective of the Foreign Investment Law before such existing foreign invested enterprise change their organization forms, organization structures, and their activities of foreign-invested enterprises in accordance with the Company Law, the Partnership Enterprise Law and other laws. According to the Foreign Investment Law, “foreign-invested enterprises” thereof refers to enterprises that are wholly or partly invested by foreign investors and registered within China under the PRC laws, “foreign investment” thereof refers to any foreign investor’s direct or indirect investment in China, including: (1) establishing foreign-invested enterprises in China either individually or jointly with other investors; (2) obtaining stock shares, stock equity, property shares, other similar interests in Chinese domestic enterprises; (3) investing in new projects in China either individually or jointly with other investors; and (4) making investment through other means provided by laws, administrative regulations, or State Council provisions.

Investments conducted by foreign investors in the PRC are subject to the Catalogue of Industries for Encouraging Foreign Investment, or the Catalogue, and the Negative List, which were jointly issued by the National Development and Reform Commission of the PRC, or the NDRC, and the Ministry of Commerce of the PRC, or the MOFCOM. The version of the Catalogue currently in force was amended in 2020 and became effective on January 27, 2021, and the version of the Negative List currently in force was amended in December 2021 and became effective on January 1, 2022, both of which further reduce restrictions on the foreign investment. According to the Negative List, industries such as Value-Added

REGULATIONS

Telecommunication Services (excluding e-commerce, domestic multi-party communications services, store-and-forward services, and contact center services) fall into restricted category, where the shareholding percentage of the foreign investors in the joint venture enterprises shall not exceed 50%. Compared with the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》), or the 2020 Negative List, the main changes under the Negative List include, among other things, the overseas securities offering and listing of a domestic enterprise shall be subject to the review and approval by the relevant regulatory authorities, if such domestic enterprise engages in the business prohibited from foreign investment under the Negative List. Article 6 of the Interpretation Note of the Negative List (the "Article 6"), which is newly promulgated, provides that if a domestic company conducts business in the prohibited areas provided in the Negative List seeks to issue and list its shares overseas, it shall complete the examination process and obtain approval by the relevant competent authorities; foreign investors shall not participate in the operation and management of the company; its shareholding percentage shall be subject to the relevant provisions on the administration of domestic securities investment by foreign investors. On January 18, 2022, a press conference was held by the NDRC to further clarify Article 6, during which the spokesperson made it clear that Article 6 shall only be applying to the situations where domestic enterprises are seeking a direct overseas issuance and listing. Therefore, the requirements stipulated in Article 6 are currently not applicable to a company with a VIE structure.

On December 26, 2019 the State Council issued Implementation Regulations for the Foreign Investment Law, or the Implementation Regulations which came into effect on January 1, 2020. According to the Implementation Regulations, in the event of any discrepancy between the Foreign Investment Law, the Implementation Regulations and relevant provisions on foreign investment promulgated prior to January 1, 2020, the Foreign Investment Law and the Implementation Regulations shall prevail. The Implementation Regulations also indicated that foreign investors that invest in sectors on the Negative List in which foreign investment is restricted shall comply with special management measures with respect to shareholding, senior management personnel and other matters in the Negative List.

Foreign investment in the value-added telecommunications industry

The FITE Regulations was promulgated by the State Council on December 11, 2001 and its latest amendment became effective on May 1, 2022. It requires foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures with the foreign investors owning no more than 50% of the equity interests of such enterprise.

On January 13, 2015, the MIIT issued the Circular on Removing the Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Business in the China (Shanghai) Pilot Free Trade Zone, according to which, a foreign investor is allowed to hold 100% of the equity interest in a PRC entity that provides online data processing and transaction processing services (for profit E-commerce) in China (Shanghai) Pilot Free Trade Zone. On June 19, 2015, the MIIT

REGULATIONS

promulgated the Circular of the Ministry of Industry and Information Technology on Removing the Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Business, or Circular 196. According to Circular 196, the restrictions over foreign shareholding percentage in online data processing and transaction processing (operating e-commerce) business have been reduced nationwide, and the foreign investor may hold up to 100% of the equity interest in a PRC company which engages in online data processing and E-commerce business; provided that such foreign investor demonstrates a good track record and experience in operating value-added telecommunications services and obtains approvals from the competent MIIT and MOFCOM.

In June 2016, the MIIT issued Notice of the Ministry of Industry and Information Technology on Issues Relating to Hong Kong and Macau Service Providers Engaging in Telecommunication Business in Mainland China, or Notice 222, according to which, (1) Hong Kong and Macau service providers are allowed to establish wholly-owned enterprises or joint venture enterprises in Mainland China with no restriction on shareholding percentage for provision of the value-add telecommunication businesses with respect to online data processing and transactions processing (limited to for profit E-commerce), domestic multi-party communications services (under the Classification Catalogue of Telecommunications Services), store-and-forward services, and contact center services, internet access services business (limited to providing internet access services for online users) and information services business (limited to application stores), and (2) Hong Kong and Macau service providers are allowed to establish joint venture enterprises in Mainland China with the shareholding percentage of Hong Kong and Macau investors in the joint venture enterprises not exceeding 50%, for provision of the value-add telecommunication businesses with respect to online data processing and transactions processing (excluding for profit E-commerce), domestic internet virtual private network business (under the Classification Catalogue of Telecommunications Services), internet data center business, internet access services business (except for providing internet access services for online users), and information services business (except for application stores). Hong Kong and Macau service providers referred to in above Notice 222 shall be subject to relevant provisions in the Mainland and Hong Kong Closer Economic Partnership Arrangement or the Mainland and Macau Closer Economic Partnership Arrangement and its relevant supplements.

Due to the lack of interpretative guidance from the relevant PRC governmental authorities, there are uncertainties regarding whether PRC governmental authorities would consider our corporate structure and contractual arrangements to constitute foreign ownership of a value-added telecommunications business. See “Risk Factors – Risks Related to Our Corporate Structure – If the PRC government finds that the agreements that establish the structure for operating our operations in China do not comply with applicable PRC regulations, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe consequences, including the nullification of the contractual arrangements and being forced to relinquish our interests in those operations.” If our current ownership structure is found to be in violation of current or future PRC laws, rules or regulations regarding the legality of foreign investment in value-added telecommunications services and other types of businesses in which foreign investment is restricted or prohibited, we could be subject to severe penalties.

REGULATIONS

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Software Registration

The State Council and the NCA have promulgated various rules and regulations relating to protection of software in China. According to these rules and regulations, software owners, licensees and transferees may register their rights in software with the Copyright Protection Center of China or its local branches and obtain software copyright registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process and registered software rights may be entitled to better protections.

Patent

The National People’s Congress adopted the Patent Law of the People’s Republic of China in 1984 and amended it in 1992, 2000, 2008 and 2020. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention and a ten-year term for a utility model or design, starting from the application date. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

According to the PRC Patent Law, if the Patent Office finds the application of an invention conforms to the legal requirements after its preliminary examination of such application documents, it shall publish the application promptly within 18 full months after the filing date. According to the Guidelines of Patent Examination that took effect on July 1, 2006, as amended in 2010, 2013, 2014, 2017, 2019 and 2020 the examination of patent shall include the preliminary examination, the substantive examination, examination of international applications entering the national phase and review. However, the above-mentioned regulations do not explicitly state how long it takes for a patent application to be approved or denied. In practice, it generally may take up to one year for the Patent Office to review and approve or deny applications of patents in the category of utility model or design and two to five years in the category of invention.

REGULATIONS

Copyright

The Copyright Law of the People’s Republic of China, promulgated in 1990 and amended in 2001, 2010 and 2020, or the Copyright Law, and its related implementation regulations, promulgated in 2002 and amended in 2013, are the principal laws and regulations governing the copyright related matters. The Copyright Law provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright of their works, which includes, among others, works of literature, art, natural science, social science, engineering technology and computer software. Under the Copyright Law, the term of protection for copyrighted software is 50 years. The Regulation on the Protection of the Right to Communicate Works to the Public over Information Networks, which was most recently amended on January 30, 2013, provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and internet service providers.

Trademark

The PRC Trademark Law was adopted in 1982 and then amended in 1993, 2001, 2013 and 2019 respectively. The implementation rules of the PRC Trademark Law were adopted in 2002 and amended in 2014. Registered trademarks are protected under the Trademark Law of the PRC and related rules and regulations. The Trademark Office of National Intellectual Property Administration handles trademark registrations and grants a protection term of ten years to registered trademarks. Where registration is sought for a trademark that is identical or similar to another trademark which has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of this trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

Domain name

In June 2019, the China Internet Network Information Center, or the CNNIC issued the Implementation Rules for Registration of National First Tier Domain Names, which became effective on June 18, 2019. On August 24, 2017, the MIIT promulgated the Measures for the Administration of Internet Domain Names, or the Domain Name Measures. The Domain Name Measures regulate the registration of domain names, such as the first-tier domain name “.cn”. The applicants will become the holder of such domain names upon the completion of the registration procedure. The permits for registered domain names are effective for five years, which are subject to renewals, cancellations or revocations. On November 27, 2017, the Ministry of Industry & Information Technology issued the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Internet Information Services which has come into force on January 1, 2018. Internet access service providers shall verify the real identity information about the domain name registrant through the Recordation System and shall verify the status of domain names used by Internet information service providers through the Recordation System on a regular basis.

REGULATIONS

Trade secrets

According to the PRC Anti-Unfair Competition Law, promulgated by the SCNPC in September 1993, as amended on November 4, 2017 and April 23, 2019 respectively, the term “trade secrets” refers to technical and business information that is unknown to the public, has utility, may create business interests or profits for its legal owners or holders, and is maintained as a secret by its legal owners or holders. Under the PRC Anti-Unfair Competition Law, business persons are prohibited from infringing others’ trade secrets by: (1) obtaining the trade secrets from the legal owners or holders by any unfair methods such as theft, bribery, fraud, coercion, electronic intrusion, or any other illicit means; (2) disclosing, using or permitting others to use the trade secrets obtained illegally under item (1) above; or (3) disclosing, using or permitting others to use the trade secrets, in violation of any contractual agreements or any requirements of the legal owners or holders to keep such trade secrets in confidence.

Pursuant to the PRC Civil Code, if one intentionally infringes upon the intellectual property rights of others and the circumstance is severe, the infringed party is entitled to request for the corresponding punitive compensation.

Internet Infringement

Under the PRC Civil Code, an internet user or an internet service provider that infringes upon the civil rights or interests of others through using the internet assumes tort liability. If an internet user infringes upon the civil rights or interests of another through using the internet, the person being infringed upon has the right to notify and request the internet service provider whose internet services are facilitating the infringement to take necessary measures including the deletion, blocking or disconnection of an internet link. If, after being notified, the internet service provider fails to take necessary measures in a timely manner to end the infringement, it will be jointly and severally liable for any additional harm caused by its failure to act.

REGULATIONS RELATING TO EMPLOYMENT

According to the Labor Law promulgated on July 5, 1994 and amended on August 27, 2009 and December 29, 2018, the PRC Labor Contract Law promulgated on June 29, 2007 and amended on December 28, 2012, and the Implementing Regulations of the Employment Contracts Law of the PRC promulgated by the State Council on September 18, 2008, employers must execute written labor contracts with full-time employees and employers have obligation to sign an unfixed-term labor contract with any employee who has worked for the employer for ten consecutive years. In addition, all employers must comply with local minimum wage standards. The employers must establish a system for labor safety and sanitation, strictly abide by State rules and standards, provide education regarding labor safety and sanitation to its employees, provide employees with labor safety and sanitation conditions and necessary protection materials in compliance with State rules, and carry out regular health examinations for employees engaged in work involving occupational hazards.

REGULATIONS

According to the Law on Social Insurance of the PRC promulgated by SCNPC on October 28, 2010 and amended on December 29, 2018, and the Regulations on the Administration of Housing Funds promulgated by the State Council on April 3, 1999 and amended on March 24, 2002 and March 24, 2019, employers in China must provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing funds. An enterprise must provide social insurance by going through social insurance registration with local social insurance authorities or agencies and shall pay or withhold relevant social insurance premiums for or on behalf of employees. On July 20, 2018, the General Office of the State Council issued the Plan for Reforming the State and Local Tax Collection and Administration Systems, which stipulated that the State Administration of Taxation of the PRC, or SAT, become solely responsible for collecting social insurance premiums.

REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal laws and regulations regulating the dividend distribution of dividends by foreign invested enterprises in the PRC include the Company Law of the PRC, as amended in August 2004, October 2005, December 2013 and October 2018, the Law of Wholly Foreign-owned Enterprises promulgated in April 1986 and amended in October 2000 and September 2016 and its implementation regulations promulgated in December 1990 and subsequently amended in April 2001 and February 2014, the Sino-Foreign Equity Joint Venture Law of the PRC promulgated in July 1979 and subsequently amended in April 1990, March 2001 and September 2016 and its implementation regulations promulgated in September 1983 and subsequently amended in January 1986, December 1987, July 2001, January 2011, February 2014 and March 2019, and the Sino-Foreign Cooperative Joint Venture Law of the PRC promulgated in April 1988 and amended in October 2000, September 2016 and November 2017 and its implementation regulations promulgated in September 1995 and amended in March 2014, March 2017 and November 2017 respectively. The Wholly Foreign-owned Enterprise Law, the Sino-Foreign Equity Joint Venture Law of the PRC and the Sino-Foreign Cooperative Joint Venture Law of the PRC were replaced by the Foreign Investment Law on January 1, 2020. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

According to the Notice on Improving the Check of Authenticity and Compliance to Further Promote Foreign Exchange Control promulgated by the SAFE, on January 26, 2017, (1) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (2) domestic entities shall hold income to account for previous years' losses before remitting the profits. Moreover, domestic entities shall make detailed explanations of sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

REGULATIONS

REGULATIONS RELATING TO FOREIGN EXCHANGE

Regulations on foreign currency exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, as last amended on August 1, 2008, or the FEA Regulations. Pursuant to the FEA Regulations, international payments in foreign exchange and the transfer of foreign exchange under the current account items shall not be subject to any state control or restriction when complying with certain procedural requirements. In contrast, the conversion of RMB into foreign currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires prior approval from SAFE or its local branches.

According to the Circular of SAFE on Further Improving and Adjusting the Foreign Exchange Policies on Direct Investment and its appendix, the Operating Rules for Foreign Exchange Issues with Regard to Direct Investment under Capital Account, promulgated on November 19, 2012 and amended on May 4, 2015, foreign exchange control measures related to foreign direct investment are improved, such as (1) the open of and payment into the foreign exchange account related to direct investment are no longer subject to approval by SAFE; (2) reinvestment with legal income of foreign investors in China is no longer subject to approval by SAFE; (3) purchase and external payment of foreign exchange related to foreign direct investment are no longer subject to approval by SAFE. Later, on February 13, 2015, SAFE issued the Circular on Further Simplifying and Improving Foreign Exchange Administration Policies in Respect of Direct Investment, or Circular 13, effective from June 1, 2015, providing that the bank, instead of SAFE, can directly handle the foreign exchange registration and approval for foreign direct investment and SAFE and its branches.

SAFE released the Notice of the State Administration of Foreign Exchange on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign Invested Enterprises, or Circular 19, on March 30, 2015, which came into force on June 1, 2015. Under Circular 19, a foreign-invested enterprise, within the registered scope of business, may settle their foreign exchange capital following a principal of authenticity on a discretionary basis according to the actual needs of their business operation, and the RMB capital so converted can be used for equity investments within the PRC, which will be regarded as the reinvestment of foreign-invested enterprise, provided that such foreign invested enterprises are not registered as an enterprises mainly engaged in investment business, including foreign investment companies, foreign funded venture capital enterprises and foreign funded equity investment enterprises. The RMB converted from the foreign exchange capital will be kept in a designated account and is not allowed to be used directly or indirectly for purposes beyond its business scope or used to provide RMB entrusted loans (unless permitted within its registered business scope), repayment of inter-company loans (including third-party advances), and repayment of bank RMB loans that have been re-loaned to third parties, and other uses expressly forbidden under Circular 19.

REGULATIONS

The Circular of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or the SAFE Circular No. 16, was promulgated and became effective on June 9, 2016. According to the SAFE Circular No. 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into RMB on self-discretionary basis. The SAFE Circular No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Circular No. 16 reiterates the principle that RMB converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment excluding banks’ principal-secured financing products within the PRC unless otherwise specifically provided. Besides, the converted RMB shall not be used to make loans for non-affiliated enterprises unless it is permitted within the business scope or to build or to purchase any real estate that is not for the enterprise’s own use unless it is a real estate enterprise.

On October 23, 2019, SAFE issued SAFE Circular 28, which cancels the restrictions on domestic equity investments by capital fund of non-investment foreign invested enterprises and allows non-investment foreign-invested enterprises to use their capital funds to lawfully make equity investments in China, provided that such investments do not violate the Negative List and the target investment projects are genuine and in compliance with laws. The interpretation and implementation in practice of Circular 28 are still subject to substantial uncertainties given it is a newly issued regulation.

Regulations on foreign exchange registration of overseas investment by PRC domestic residents

On July 4, 2014, SAFE issued Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37, to regulate foreign exchange matters in relation to the use of Special Purpose Vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China.

Pursuant to SAFE Circular 37, a SPV refers to an overseas enterprise directly formed or indirectly controlled for investment or financing purposes by a domestic resident (domestic institution or domestic individual resident) with the assets or interests it legally holds overseas or in a domestic enterprise, while “round trip investment” refers to the direct investments made in China by domestic residents directly or indirectly through SPVs, namely, the behavior of establishing foreign invested enterprises or projects, or foreign-funded enterprises, in China by formation, acquisition, merger, or any other means, and acquiring interests, such as ownership, control, or operating right, in them. SAFE Circular 37 provides that, before making contribution into an SPV, PRC residents are required to complete foreign exchange registration with SAFE or its local branch according to SAFE Circular 37 and applicable currently effective SAFE regulations including the Administration of Foreign Exchange in Foreign Direct

REGULATIONS

Investments by Foreign Investors. According to the Circular 13, local banks, instead of SAFE, will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration.

Failure to comply with the registration procedures set forth in SAFE Circular 37 and the subsequent notice, or making misrepresentation on or failure to disclose controllers of the foreign invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

We have used our best efforts to notify PRC residents (domestic institution or domestic individual resident) who directly or indirectly hold shares in our Cayman Islands holding company and who are known to us as being PRC residents to complete the foreign exchange registrations. However, we may not at all times be fully aware or informed of the identities of all our shareholders or beneficial owners, and we cannot compel them to comply with SAFE registration requirements. See “Risk Factors – Risks Related to Doing Business in China – We may be subject to penalties, including registration on our ability to inject capital into our PRC subsidiaries, and on our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.”

Regulations on stock incentive plans

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE on February 15, 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our wholly foreign owned subsidiaries in China and limit these subsidiaries’ ability to distribute dividends to us. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC established by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall quarterly submit the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with

REGULATIONS

SAFE or its local branches. We and our PRC citizen employees who have been granted share options, or PRC optionees, are subject to the Stock Option Rules. If we or our PRC optionees fail to comply with the Individual Foreign Exchange Rule or the Stock Option Rules, we and our PRC optionees may be subject to fines and other legal sanctions. In addition, the PRC agents are required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan. Moreover, the SAFE Circular 37 provides that PRC residents who participate in a share incentive plan of an overseas unlisted special purpose company may register with local branches of SAFE before exercising rights.

In addition, the SAT has issued circulars concerning employee share options, under which our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiary and affiliated entities have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or if we fail to withhold their income taxes as required by relevant laws and regulations, we may face sanctions imposed by the PRC tax authorities or other PRC government authorities.

REGULATIONS RELATING TO TAXATION

Dividend withholding tax

The National People’s Congress enacted the Enterprise Income Tax Law, which became effective on January 1, 2008 and last amended on December 29, 2018. According to Enterprise Income Tax Law and the Regulation on the Implementation of the Enterprise Income Tax Law, or the Implementing Rules, which became effective on January 1, 2008 and further amended on April 23, 2019, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign enterprise investor’s jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement.

According to the Notice of the SAT on Negotiated Reduction of Dividends and Interest Rates issued on January 29, 2008, revised on February 29, 2008, and the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income, or Double Tax Avoidance Arrangement, the withholding tax rate in respect of the payment of dividends by a PRC enterprise to a Hong Kong enterprise may be reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise and certain other conditions are met, including: (1) the Hong Kong enterprise must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (2) the Hong Kong enterprise must have directly owned such required percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due

REGULATIONS

to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Announcement on Certain Issues with Respect to the “Beneficial Owner” in Tax Treaties issued by the SAT on February 3, 2018 and effective from April 1, 2018, if an applicant’s business activities do not constitute substantive business activities, it could result in the negative determination of the applicant’s status as a “beneficial owner,” and consequently, the applicant could be precluded from enjoying the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

Enterprise income tax

The Enterprise Income Tax Law and the Implementing Rules impose a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises, except where tax incentives are granted to special industries and projects. Among other tax incentives, the preferential tax treatment continues as long as an enterprise can retain its high and new technology enterprise status.

Under the PRC Enterprise Income Tax Law, an enterprise established outside China with “de facto management bodies” within China is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. A circular issued by the SAT in April 2009 and amended in 2017 regarding the standards used to classify certain Chinese invested enterprises controlled by Chinese enterprises or Chinese enterprise groups and established outside of China as “resident enterprises,” which also clarified that dividends and other income paid by such PRC “resident enterprises” will be considered PRC source income and subject to PRC withholding tax, currently at a rate of 10%, when paid to non PRC enterprise shareholders. This circular also subjects such PRC “resident enterprises” to various reporting requirements with the PRC tax authorities. Under the implementing rules, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise.

On October 17, 2017, the SAT issued the SAT Bulletin 37, which replaced the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, issued by the SAT, on December 10, 2009, and partially replaced and supplemented by the rules under the SAT Bulletin 7, issued by the SAT, on February 3, 2015. Under SAT Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident

REGULATIONS

enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments bears the withholding obligation. Pursuant to SAT Bulletin 37, the withholding party shall declare and pay the withheld tax to the competent tax authority in the place where such withholding party is located within 7 days from the date of occurrence of the withholding obligation. Both SAT Bulletin 37 and SAT Bulletin 7 do not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

Value-added tax

The Provisional Regulations of the PRC on Value-added Tax were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended in 2008, 2016 and 2017, or the VAT Regulation. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) was promulgated by the MOF on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011, and together with the VAT Regulation, or the VAT Law. The PRC State Council approved, and the SAT and the MOF officially launched a pilot value-added tax reform program starting from January 1, 2012, or the Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay value-added tax instead of business tax. The Pilot Program was initiated in Shanghai, then further applied to ten additional regions such as Beijing and Guangdong province. On November 19, 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax, or the Order 691.

According to the VAT Law and the Order 691, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of VAT. The VAT rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the VAT rate applicable to the small-scale taxpayers is 3%.

On April 4, 2018, Adjustment to Value-added Tax Rates issued by the Ministry of Finance and the SAT was promulgated by MOF and SAT, which came into effect on May 1, 2018, or the Bulletin 32. According to Bulletin 32, the VAT tax rates of 17% and 11% are changed to 16% and 10%, respectively. On March 20, 2019, the Ministry of Finance, State Taxation Administration and General Administration of Customs jointly promulgated the Announcement on Policies for Deepening the VAT Reform or Notice 39, which came into effect on April 1, 2019. Notice 39 further changes the VAT tax rates of 16% and 10% to 13% and 9%, respectively.

REGULATIONS

REGULATIONS RELATING TO M&A RULE AND OVERSEAS LISTING IN THE PRC

The MOFCOM, the SASAC, the SAT, the SAIC, the China Securities Regulatory Commission, or the CSRC, and the SAFE jointly adopted the Rules on Acquisition of Domestic Enterprises by Foreign Investors on August 8, 2006, as later amended on June 22, 2009, or the M&A Rules. The M&A Rules require in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise where any of the following situations exist: (i) the transaction involves an important industry in China, (ii) the transaction may affect national economic security, or (iii) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. The M&A Rules, among other things, also require that (i) PRC entities or individuals obtain MOFCOM approval before they establish or control an SPV overseas, provided that they intend to use the SPV to acquire their equity interests in a PRC company at the consideration of newly issued share of the SPV, or the Share Swap, and list their equity interests in the PRC company overseas by listing the SPV in an overseas market; (ii) the SPV obtains MOFCOM’s approval before it acquires the equity interests held by the PRC entities or PRC individual in the PRC company by Share Swap; and (iii) the SPV obtains CSRC approval before it lists overseas.

The M&A Rules further requires that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council, are triggered. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the NPC requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds be cleared by the MOFCOM before they can be completed.