

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

### TAXATION OF SECURITY HOLDERS

#### Taxation on Dividends

##### *Individual Investors*

According to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the "IIT Law"), which was last amended on August 31, 2018 and the Regulation on Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), which was last amended on December 18, 2018, dividends paid by PRC enterprises are subject to individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to an individual income tax rate of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

According to Circular of Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT, from January 1, 1997, income of individuals from transfer of the shares of listed enterprises continues to be exempted from individual income tax. Subsequently on December 31, 2009, the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Moratorium Shares of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No. 167) came into effect, which provides that individuals' income from transferring listed shares on certain domestic stock exchanges shall continue to be exempted from individual income tax, except for relevant moratorium shares (as defined in the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70).

According to the Notice on Issues Concerning Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》) (Caishui [2015] No. 101) promulgated by the MOF, the SAT and China Securities Regulatory Commission on September 7, 2015, and effective on September 8, 2015, for individuals who acquire the stocks of a listed company from public offering or secondary market and hold the stocks for more than one year, the income from dividends and bonuses shall be temporarily exempt from individual income tax. For individuals who acquire the stocks of a listed company from public offering or transferring market, all the income from dividends and bonuses shall be included into the taxable amounts in case the holding period is less than one month (inclusive of one month); 50% thereof will be included into the taxable amounts in case the holding period is over one month but less than one year (inclusive of one year) temporarily; a unified tax rate at 20% shall be applicable to the aforesaid incomes in the levy of individual income tax.

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According to the Notice of the SAT on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa [1993] No. 45) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals under the tax treaty, normally withhold individual income tax at the rate of 10%, without applying to PRC tax authority. If the tax rate of 10% is not applicable, it shall be handled according to the following rules: (i) for residents of the countries who had entered into an income tax treaty with PRC to provide a tax rate lower than 10%, the withholding agent may handle the application for enjoying the agreed treatment on behalf of such individual, and the excess tax shall be returned subject to the examination and approval of the competent tax authority; (ii) for residents of the countries who had entered into an income tax treaty with PRC to provide a tax rate higher than 10% but lower than 20%, the withholding agent shall withhold individual income tax at the agreed effective tax rate without making any application; (iii) for residents of the countries who had not entered into an income tax treaty with PRC or in other cases, the withholding agent shall withhold a 20% individual income tax.

According to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Income Tax (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed by the SAT on August 21, 2006 and effective on December 8, 2006, the PRC government may impose tax on dividends payable by a PRC company to a Hong Kong resident (including a natural person and a legal entity), but such tax amount shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds a 25% or more of the equity interest in a PRC company, such tax amount shall not exceed 5% of the gross amount of dividends payable by the PRC company. Meanwhile, pursuant to the Fifth Protocol to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Income Tax signed by the SAT on July 19, 2019 and effective on December 6, 2019, the above tax preference shall not apply to any arrangement or transaction with the primary purpose of obtaining the aforesaid tax benefits. The enforcement of the dividend terms of the tax agreements shall be in compliance with the Notice of the SAT on the Issues Concerning the Implementation of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協議股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81) and other tax-related PRC laws and regulations.

For individual holders of H Shares who are entitled to receive dividends as residents of countries that have entered into a tax treaty with the PRC to provide a tax rate lower than 10%, the non-foreign-invested enterprise whose shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax rate, and, upon approval by the tax authorities, the excess amount of withholding tax will be refunded. For individual holders of H Shares who are entitled to receive dividends as residents of countries that have entered into a tax treaty with the PRC to provide a tax rate higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the tax treaties, and no application is required. For individual holders of H Shares receiving dividends as foreign residents, and whose countries did not enter into tax treaties with the PRC, the non-foreign-invested enterprise is required to withhold the tax at a rate of 20%.

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According to the Notice on Certain Policy Issues Concerning Individual Income Tax (《關於個人所得稅若干政策問題的通知》) (Cai Shui Zi [1994] No. 20) promulgated by the MOF and the SAT on May 13, 1994 and effective on the same day, the dividends and bonuses received by foreign individuals from foreign-invested enterprises are temporarily exempt from individual income tax.

### *Corporate Investors*

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), which came into effect as of January 1, 2008 and was last amended on December 29, 2018, and the Implementation provisions for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), which came into effect as of January 1, 2008 and was last amended on April 23, 2019, the rate of enterprise income tax shall be 25%. A non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends received by a PRC resident enterprise from issuing shares in Hong Kong), if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected to such establishment or place in the PRC. The aforesaid income tax may be reduced pursuant to applicable treaties to avoid double taxation. Such income tax payable by non-resident enterprises mentioned above are deducted at source, where the payer should be the withholding agent, and the tax amount is required to be withheld from the amount to be paid by the withholding agent when such payment is made or due.

The Circular of the SAT on Issues Relating to the Withholding of Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) which was issued by the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to overseas non-resident enterprise shareholders of H Shares for 2008 and subsequent years. In addition, the Response to Issues on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B-shares (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復》) (Guo Shui Han [2009] No. 394) which was issued by the SAT and came into effect on July 24, 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends that it distributes to non-resident enterprises in 2008 and onwards. Such tax rates may subject to change pursuant to the tax treaty or agreement that China has concluded with relevant jurisdiction, where applicable.

According to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, PRC Government may levy taxes on the dividends paid by a PRC company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the PRC company. If a Hong Kong resident

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directly holds 25% or more of the equity interest in a PRC company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion issued by the SAT (《國家稅務總局關於〈內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排〉第五議定書》) effective on December 6, 2019 states that such provisions shall not apply to those arrangements or transactions with the primary purpose of obtaining the aforesaid tax benefit. The application of the dividend clause of tax agreements shall be subject to the PRC tax laws and regulations, such as the Notice of the SAT on the Issues Concerning the Implementation of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協議股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

### *Tax Treaties*

Non-PRC resident investors residing in countries which have entered into treaties for the avoidance of double taxation with the PRC are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has entered into Avoidance of Double Taxation Treaties/Arrangements with a number of countries and regions including HK, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax treaties or arrangements are required to apply to the Chinese tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the Chinese tax authorities.

According to the Notice of the SAT on the Issues Concerning the Implementation of the Dividend Clauses of Tax Agreements 《國家稅務總局關於執行稅收協議股息條款有關問題的通知》 (Guo Shui Han [2009] No. 81) promulgated and came into effect on February 20, 2009, dividends distributed by a PRC company may only enjoy special tax treatment in accordance with the provisions of the relevant tax treaties after certain conditions are met. For example, the dividend recipient shall meet the conditions stipulated in the relevant tax treaties and directly hold the proportion of shares of certain class of shares and voting rights applicable to the relevant tax treaties in the PRC company at any time for 12 consecutive months prior to the receipt of the dividend. Furthermore, according to the Administrative Measures for Convention Treatment for Non-resident Taxpayers (《非居民納稅人享受協定待遇管理辦法》), which was promulgated on October 14, 2019 and became effective on January 1, 2020, non-resident taxpayers claiming treaty benefits shall be handled in accordance with the principles of "self-assessment, claiming benefits, retention of the relevant materials for future inspection." Where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through a withholding agent, simultaneously gather and retain the relevant materials pursuant to the provisions of these Measures for future inspection, and subject to subsequent administration by tax authorities.

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### Taxation on Share Transfer

#### *VAT and Local Additional Tax*

According to the Notice on Fully Implementing the Pilot Reform for the Transition from Business Tax to Value-added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) (hereinafter referred to as "Circular 36") promulgated by the MOF and the SAT on March 23, 2016, implemented on May 1, 2016, and amended on July 11, 2017, December 25, 2017 and March 20, 2019, respectively, entities and individuals engaged in the services sale in the PRC are subject to VAT and "engaged in the services sale in the PRC" means that the seller or buyer of the taxable services is located in the PRC. Circular 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable revenue (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer. However, individuals who transfer financial products are exempt from VAT, which is also provided in the Notice of Ministry of Finance and State Administration of Taxation on Several Tax Exemption Policies for Business Tax on Sale and Purchase of Financial Commodities by Individuals (《財政部、國家稅務總局關於個人金融商品買賣等營業稅若干免稅政策的通知》) (Cai Shui [2009] No. 111) effective on January 1, 2009.

At the same time, VAT payers are also required to pay urban maintenance and construction tax, education surtax and local education surcharge (hereinafter collectively referred to as "Local Additional Tax"), which shall be usually subject to 12% of the VAT payable (if any).

#### *Income tax*

##### *Individual Investors*

According to the Individual Income Tax Law and its implementation provisions, proceeds from the sale of equity interests in the PRC resident enterprises are subject to individual income tax at a rate of 20%. According to the Circular on Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui [1998] No. 61) promulgated by the MOF and the SAT on March 20, 1998, from January 1, 1997, proceeds from transfer of the shares of listed enterprises continues to be exempted from individual income tax. On December 31, 2009, the MOF, the SAT and CSRC jointly issued the Circular on Related Issues on Levying Individual Income Tax over the Income Received by Individuals from the Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No. 16), which states that individuals' proceeds from the transfer of the shares of listed companies on the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in the Supplementary Notice on Issues Concerning the Levy of Individual Income Tax on Individuals' Income from the Transfer of Restricted Stocks of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70) jointly issued by such three departments on November 10, 2010).

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As of the Latest Practicable Date, no aforesaid provisions have expressly provided that individual income tax shall be levied from non-Chinese resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, the PRC tax authorities have not sought to collect individual income tax from non-PRC resident individuals on gains from the transfer of listed shares of PRC resident enterprises on overseas stock exchanges. However, there is no assurance that the PRC tax authorities will not change these practices, which could result in levying income tax on non-PRC resident individuals on gains from the sale of our H Share.

### *Enterprise Investors*

According to the EIT Law and its implementation provisions, a non-resident enterprise is generally subject to corporate income tax at a rate of 10% on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. Such income tax payable for non-resident enterprises are deducted at source, for which the payer thereof shall be the withholding agent. When making such payment or when such payment becomes due and payable, the withholding agent shall withhold the income tax from the payment or the payment becoming due and payable. Such tax may be reduced or exempted pursuant to relevant tax treaties or agreements on avoidance of double taxation.

### *Stamp Duty*

According to the Provisional Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例》) came into effect on October 1, 1988 and amended on January 8, 2011, and the Implementation Provisions of Provisional Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例施行細則》) came into effect on October 1, 1988, PRC stamp duty only applies to specific voucher executed or received within the PRC, having legally binding force in the PRC and being protected under the PRC laws, thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

### *Estate Duty*

Currently no estate duty has been levied in the PRC.

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### PRINCIPAL TAXATION OF OUR COMPANY IN THE PRC

#### Enterprise Income Tax

According to EIT Law and its implementation provisions, enterprises and other organizations which generate income within the PRC are enterprise income tax payers and shall pay enterprise income tax at a tax rate of 25%. A foreign-invested enterprise in the PRC that is classified as a resident enterprise shall pay enterprise income tax on its income derived from sources within and without China at a rate of 25%.

#### Value-added Tax

According to Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) (“VAT Provisional Regulations”) and Implementation Rules for the Provisional Regulations the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) (“VAT Provisional Regulations Implementation Rules”), entities and individuals that sell goods or labor services of processing, repair or replacement, sales, intangible assets, real estates, or import goods within the territory of the PRC are taxpayers of value-added tax (“VAT”), and shall pay VAT in accordance with these Regulations. Unless otherwise provided for by law, the VAT rate is: 17%, for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods; 11%, for taxpayers selling transportation, postal, basic telecommunications, construction, or real estates leasing services, selling real estates, transferring the rights to use land, or selling or importing specific goods; 6%, for taxpayers selling services or intangible assets; zero, for domestic entities and individuals selling services or intangible assets within the scope prescribed by the State Council across national borders; and zero, for taxpayers exporting goods, except as otherwise specified by the State Council.

According to the Notice on Fully Implementing the Pilot Reform for the Transition from Business Tax to Value-added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) promulgated by the MOF and the SAT on March 23, 2016, and implemented on May 1, 2016, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to the payment of value-added tax instead of business tax.

According to the Circular of Taxation on Adjusting Value-added Tax Rates (《關於調整增值稅稅率的通知》) (“Cai Shui [2018] No. 32”) promulgated by the MOF and the SAT on April 4, 2018 and implemented on May 1, 2018, where a taxpayer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% and 11% tax rates are lowered to 16% and 10%, respectively.

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According to the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) promulgated by the MOF, the SAT and the General Administration of Customs of the PRC on March 20, 2019 and implemented on April 1, 2019 ("Circular 39 by the MOF, the SAT and the General Administration of Customs for 2019") ("Circular 39"), for general VAT taxpayers who conduct VAT taxable sales or import goods, applicable tax rates that were previously subject to 16% and 10% were adjusted to 13% and 9%, respectively.

### *Foreign Exchange*

The lawful currency of the PRC is Renminbi, which is currently subject to foreign exchange controls and cannot be freely converted into foreign currency. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to Regulations on Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Administration Regulations") promulgated by the State Council on January 29, 1996 and became effective on April 1, 1996, the Foreign Exchange Administration Regulations classify all international payments and transfers into current items and capital items. Most of the current items are not subject to the approval of foreign exchange administration authorities, while capital items are subject to such approval. The Foreign Exchange Administration Regulations were subsequently amended on January 14, 1997 and August 1, 2008, and became effective on August 5, 2008. The latest amendment to the Foreign Exchange Administration Regulations clearly states that the PRC will not impose any restriction on international current payments and transfers.

On June 20, 1996, PBOC promulgated the Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (Yin Fa [1996] No. 210) (the "Settlement Regulations"), which became effective on July 1, 1996. The Settlement Regulations do not impose any restrictions on convertibility of foreign exchange under current items, while imposes restrictions on foreign exchange transactions under capital items.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign-invested enterprises) which need foreign exchange for current account transactions may, without the approval of the foreign exchange administrative authorities, effect payment through foreign exchange accounts opened at financial institutions that carries foreign exchange business or operating institutions that carries settlement and sale business, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange may, on the strength of resolutions of the board of directors or the shareholders' meeting on the distribution of profits, effect payment from foreign exchange accounts opened at financial institutions that carries foreign exchange business or institutions that carries settlement and sale business, or effect exchange and payment at financial institutions that carry foreign exchange business or institutions that carry settlement and sale business.



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According to the Circular on Improving the Reform of the Renminbi Exchange Rate Formation Mechanism (《關於完善人民幣匯率形成機制改革的公告》) (PBOC Circular [2005] No. 16) promulgated by the PBOC on July 21, 2005, the PRC has started to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies. Therefore, the Renminbi exchange rate was no longer pegged to the U.S. dollar. PBOC would publish the closing price of the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions on the following working day.

According to the Announcement on the Improvement of the Inter-bank Spot Foreign-Exchange Market (《中國人民銀行關於進一步完善銀行間即期外匯市場的公告》) (PBOC Announcement [2006] No.1), since January 4, 2006, the PBOC improved the method of generating the middle price for quoting the RMB exchange rate by introducing an enquiry system while keeping the match-making system in the interbank spot foreign exchange market. In addition, PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market.

According to the Decision of the State Council on Canceling and Adjusting a Group of Administrative Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No.50), it canceled the administrative approval by the SAFE and its branches for matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

On December 26, 2014, the SAFE issued the Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) (Hui Fa [2014] No. 54), pursuant to which a domestic company shall, within 15 business days of the date of the end of its overseas listing issuance, register the overseas listing with the SAFE's local branch at the place of its incorporation; and the proceeds from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the document and other disclosure documents.

On February 13, 2015, the SAFE issued the Notice of the SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (Hui Fa [2015] No. 13), which came into effect on June 1, 2015 and were partly cancelled. The notice has cancelled the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment, instead, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, and the SAFE and its local branches shall indirectly regulate the foreign exchange registration of direct investment through banks.

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According to the Notice of the SAFE on Revolutionize and Regulate Capital Account Settlement Management Policies (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) issued by the SAFE on June 9, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjustment of the SAFE in due time in accordance with international revenue and expenditure situations.

On January 26, 2017, the SAFE issued the Notice of the SAFE on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) (Hui Fa [2017] No. 3) to further expand the scope of settlement for domestic foreign exchange loans, allow settlement for domestic foreign exchange loans with export background under goods trading, allow repatriation of funds under domestic guaranteed foreign loans for domestic utilization, allow settlement for domestic foreign exchange accounts of foreign institutions operating in the Free Trade Pilot Zones, and adopt the model of full-coverage RMB and foreign currency overseas lending management, where a domestic institution engages in overseas lending, the sum of its outstanding overseas lending in RMB and outstanding overseas lending in foreign currencies shall not exceed 30% of its owner's equity in the audited financial statements of the preceding year.

In accordance with the Circular of the SAFE on Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (Hui Fa [2019] No. 28) promulgated by the SAFE on October 23, 2019, and became effective on the same day, foreign-invested enterprises engaged in non-investment business are permitted to settle foreign exchange capital in RMB and make domestic equity investments with such RMB funds according to laws and regulations under the condition that the current Special Administrative Measures (Negative List) for Foreign Investment Access are not violated and the relevant domestic investment projects are authentic and compliant.

According to the Circular of the SAFE on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》) (Hui Fa [2020] No. 8) promulgated by the SAFE on April 10, 2020 and became effective on the same day, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance with the prevailing administrative provisions on use of income under the capital account, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc. for domestic payment, without prior provision of proof materials for veracity to the bank for each transaction.