
REGULATORY OVERVIEW

REGULATORY OVERVIEW

This section sets forth a summary of the most significant PRC laws and regulations that affect our business activities in China.

Regulations Related to Foreign Investment

General Provisions

The establishment, operation and management of companies in China are mainly governed by the PRC Company Law (《中華人民共和國公司法》), or our Company Law, promulgated on 29 December 1993 and last amended on 26 October 2018, which applies to both PRC domestic companies and foreign-invested companies.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), or the Foreign Investment Law, which was adopted by the National People's Congress of the PRC, or the NPC, on 15 March 2019, and came into effect on 1 January 2020, and the Implementing Rules of the Foreign Investment Law (《中華人民共和國外商投資法實施條例》), or the Implementing Rules, which was adopted by the State Council on 26 December 2019 and came into effect on 1 January 2020, replaced the Law of the People's Republic of China on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》), the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》) and their implementing rules. The Foreign Investment Law and its Implementing Rules provide that a system of pre-entry national treatment and negative list shall be applied for the administration of foreign investments, where “pre-entry national treatment” means that the treatment given to foreign investors and their investments at market access stage is no less favorable than that given to domestic investors and their investments, and “negative list” means the special administrative measures for foreign investment's access to specific fields or industries. Foreign investments beyond the negative list will be granted national treatment. Foreign investors shall not invest in the prohibited fields as specified in the negative list, and foreign investors who invest in the restricted fields shall comply with the special requirements on the shareholding, senior management personnel, etc. In the meantime, relevant competent government departments will formulate a catalogue of industries for which foreign investments are encouraged according to the needs for national economic and social development, to list the specific industries, fields and regions in which foreign investors are encouraged and guided to invest. The current industry entry clearance requirements governing investment activities in the PRC by foreign investors are set out in two categories, namely the Special Entry Management Measures (Negative List) for the Access of Foreign Investment (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), or the 2021 Negative List, which was promulgated on 27 December 2021 and came into effect on 1

REGULATORY OVERVIEW

January 2022, and the Encouraged Industry Catalogue for Foreign Investment (2022 version) (《鼓勵外商投資產業目錄 (2022年版)》), or the 2022 Encouraged Industry Catalogue, which was promulgated on 26 October 2022 and came into effect on 1 January 2023, both were promulgated by the National Development and Reform Commission, or the NDRC, and the Ministry of Commerce, or the MOFCOM. Industries not listed in these two categories are generally deemed “permitted” for foreign investment unless specifically restricted by other PRC laws. The real estate development is not listed in the 2021 Negative List, and thus it shall be administered under the principle of equal treatment to both domestic and foreign investments. According to the Implementing Rules, the registration of foreign-invested enterprises shall be handled by the State Administration for Market Regulation, or the SAMR, or its authorised local counterparts.

Pursuant to the Foreign Investment Law and the Implementing Rules, and the Information Reporting Measures for Foreign Investment (《外商投資信息報告辦法》) jointly promulgated by the MOFCOM and the SAMR, which took effect on 1 January 2020, a foreign investment information reporting system shall be established and foreign investors or foreign-invested enterprises shall report investment information to competent commerce departments of the government. In addition, the MOFCOM shall set up a foreign investment information reporting system to receive and handle the investment information and inter-departmentally shared information forwarded by the administration for market regulation in a timely manner. The foreign investors or foreign-invested enterprises shall report the investment information by submitting initial reports, change reports, deregistration reports and annual reports, etc.

Furthermore, the Foreign Investment Law provides that foreign-invested enterprises established according to the previous laws regulating foreign investment prior to the implementation of the Foreign Investment Law may maintain their structure and corporate governance within five years after the implementation of the Foreign Investment Law. The Implementing Rules further clarify that such foreign-invested enterprises established prior to the implementation of the Foreign Investment Law may either adjust their organisational forms or organisational structures pursuant to our Company Law or the Partnership Law, or maintain their current structure and corporate governance within five years upon the implementation of the Foreign Investment Law.

Foreign Investment in Real Estate Industry

The Opinions on Regulating the Access and Administration of Foreign Investment in the Real Estate Market (《關於規範房地產市場外資准入和管理的意見》), or the Opinion, which was jointly promulgated by the MOFCOM, the NDRC, the People’s Bank of China, or the PBOC, the State Administration for Industry of Commerce, or the SAIC, and the State Administration of Foreign Exchange, or the SAFE on 11 July 2006 and amended on 19 August 2015, provides that: (i) foreign organisations and individuals who have established foreign-invested enterprises in China

REGULATORY OVERVIEW

are allowed to invest in and purchase non-owner-occupied real estate; (ii) the registered capital of foreign-invested real estate enterprises with the total investment amount exceeding or equal to US\$10 million shall be no less than 50% of their total investment; (iii) upon the full payment of all the land premiums, the real estate foreign-invested enterprise, or the Real Estate FIE, can apply for the normal certificate of approval for a foreign-invested enterprise and business license; (iv) equity transfer and project transfer of a foreign-invested real estate enterprise as well as the acquisition of domestic real estate enterprises by foreign investors shall be subject to the examination and approval of the department in charge of commerce and other departments; and (v) foreign investors shall pay the consideration in one single payment with their own funds when they acquire a domestic real estate enterprise or any equity interest from Chinese parties in Sino-foreign Equity Joint Venture engaged in real estate industry.

The Circular on the Thorough Implementation of the Opinion on Regulating the Access to and Management of Foreign Capital in the Property Market (《關於貫徹落實〈關於規範房地產市場外資准入和管理的意見〉有關問題的通知》), which was promulgated by the MOFCOM on 14 August 2006, not only reiterates relevant provisions on foreign investments in the real estate industry as prescribed in the Opinion, but also sets forth the definition of Real Estate FIE as a foreign invested enterprise, which conducts the construction and operation of a variety of buildings, such as ordinary residences, apartments and villas, hotels (restaurants), resorts, office buildings, convention centres, commercial facilities, and theme parks, or undertakes the development of land or a whole land lot in respect of the abovementioned projects.

The Circular on Amending the Policies Concerning Access by and Administration of Foreign Investment in the Real Estate Market (《關於調整房地產市場外資准入和管理有關政策的通知》), which was jointly promulgated by MOFCOM, NDRC, PBOC, SAIC and SAFE on 19 August 2015, has revised certain policies related to the Real Estate FIE and property purchased by foreign organisations and individuals as stipulated in the Opinion: (i) the requirements for the registered capital of Real Estate FIE shall be subject to provisions in the Provisional Regulations of the State Administration for Industry and Commerce on the Proportion of Registered Capital to Total Amount of Investment of a Sino-foreign Equity Joint Ventures (《國家工商行政管理局關於中外合資經營企業註冊資本與投資總額比例的暫行規定》), which was promulgated on 1 January 1987; and (ii) the requirement on full payment of registered capital of the Real Estate FIE before applying for domestic or foreign loans or foreign exchange loan settlement has been cancelled.

The Notice on Further Strengthening and Regulating the Approval and Administration regarding Foreign Direct Investment in the Real Estate Industry (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》), which was jointly promulgated by the MOFCOM and SAFE on 23 May 2007 and amended on 28 October 2015, stipulates that (i) foreign investments in the real estate industry in the PRC relating to high-grade properties should be strictly controlled; (ii) both the land use rights certificates and building ownership certificates should be obtained, or

REGULATORY OVERVIEW

contracts for obtaining the aforesaid certificates should be entered into, before obtaining approval for the establishment of a Real Estate FIE; (iii) strict control should be imposed on the acquisition of or investment in domestic real estate enterprises by way of round trip investment. Foreign investors shall not acquire control of domestic enterprises for the purpose of circumventing the approval procedure related to Real Estate FIE; (iv) Chinese parties shall not, explicitly or implicitly provide any warranties with regard to allocating fixed returns to any party in a Real Estate FIE; (v) a Real Estate FIE incorporated upon approval by local approval bodies should be registered with the MOFCOM on a timely manner; and (vi) foreign exchange administration bodies and designated foreign exchange banks shall not process sale and settlement of foreign exchange for capital account items for Real Estate FIEs that fail to complete filing procedures with the MOFCOM or to pass joint inspection for foreign invested enterprises.

Regulations Related to Overseas Listing

On 17 February 2023, with the approval of the State Council, the China Securities Regulatory Commission (“CSRC”) released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “Overseas Listing Measures”) and five supporting guidelines, which will come into effect on 31 March 2023. The Overseas Listing Measures will comprehensively improve and reform the existing regulatory regime for overseas offering and listing of PRC domestic companies’ securities and will regulate both direct and indirect overseas offering and listing of PRC domestic companies’ securities by adopting a filing-based regulatory regime.

According to the Overseas Listing Measures, (1) PRC domestic companies that seek to offer or list securities overseas, either directly or indirectly, shall fulfil the filing procedure with the CSRC and report relevant information; if a domestic company fails to complete the filing procedure or has any misrepresentation, misleading representation or material omission in its filing documents, such domestic company may be subject to administrative penalties, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties; (2) if the issuer meets both of the following conditions, the overseas offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (i) any of the total assets, net assets, revenues or profits of the domestic operating entities of the issuer in the most recent accounting year accounts for more than 50% of the corresponding figure in the issuer’s audited consolidated financial statements for the same period; and (ii) its major operational activities are carried out in China or its main places of business are located in China, or the senior managers in charge of operation and management of the issuer are mostly Chinese citizens or are domiciled in China; and (3) where a domestic company seeks to indirectly offer and list securities in an overseas market, the issuer shall designate a major domestic operating entity responsible for all filing procedures with the CSRC,

REGULATORY OVERVIEW

and where an issuer makes an application for initial public offering or listing in an overseas market, the issuer shall submit filings with the CSRC within three business days after such application is submitted.

On the same day, CSRC also held a press conference for the release of the Overseas Listing Measures and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies (《關於境內企業境外發行上市備案管理安排的通知》), which, among others, clarifies that (1) on the effective date of the Overseas Listing Measures, domestic companies that have already submitted valid applications for overseas offering and listing but have not obtained approval from overseas regulatory authorities or stock exchanges may reasonably arrange the timing for submitting their filing applications with the CSRC, and must complete the filing before the completion of their overseas offering and listing; and (2) a six-month transition period (i.e. from 31 March 2023 to 30 September 2023) will be granted to domestic companies which, prior to the effective date of the Overseas Listing Measures, have already obtained the approval from overseas regulatory authorities or stock exchanges (such as the completion of hearing in the market of Hong Kong or the completion of registration in the market of the United States), but have not completed the indirect overseas listing; if domestic companies fail to complete the overseas listing within such six-month transition period, they shall file with the CSRC according to the Overseas Listing Measures.

Regulations Related to Real Estate Development Enterprise

Establishment of a Real Estate Development Enterprise

Pursuant to the PRC Law on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), or the Urban Real Estate Law, which was promulgated on 5 July 1994, and amended on 30 August 2007, 27 August 2009 and 26 August 2019, respectively, a real estate development enterprise is defined as an enterprise engaged in development and operation of real estate for the purpose of profits. Pursuant to the Regulations on Administration of Development and Operation of Urban Real Estate (《城市房地產開發經營管理條例》), or the Development Regulations, which was promulgated by the State Council on 20 July 1998 and amended on 8 January 2011, 19 March 2018, 24 March 2019, 27 March 2020 and 29 November 2020, respectively, except for the conditions for the establishment of an enterprise provided in relevant laws and regulations, the establishment of a real estate development enterprise shall also fulfil the following conditions: (i) the registered capital shall be no less than RMB1 million; (ii) the enterprise shall employ no less than four (4) full-time qualified technical staffs in the fields of real estate and construction engineering and no less than two (2) qualified full-time accountants. The local competent governments may subject to the local situations set out more stringent requirements with respect to the aforementioned conditions.

REGULATORY OVERVIEW

The Notice on Adjusting the Capital Ratio of Fixed Assets Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》), which was promulgated by the State Council on 25 May 2009, has reduced the requirement on the minimum capital for social welfare housing and general commercial residence from 35% to 20%, while the requirement on the minimum capital for other real estate projects has been reduced to 30%. According to the Notice on Adjusting and Perfecting the Capital System for Fixed Assets Investment (《國務院關於調整和完善固定資產投資項目資本金制度的通知》), which was promulgated by the State Council on 9 September 2015, the minimum portion of capital for social welfare housing and general commercial residence still maintained at 20%, while the minimum portion of capital for other real estate projects has been reduced from 30% to 25%.

Qualifications

Pursuant to the Development Regulations, a real estate development enterprise shall, within 30 days of receipt of the business license, file the relevant documents with the local real estate development authorities. The real estate development authorities shall examine applications for classification of a real estate enterprise's qualification by considering its assets, professional personnel and industrial achievements. The real estate development enterprise shall undertake real estate development projects complying with the class of qualification as verified.

Pursuant to the Regulations on Administration of Qualification of Real Estate Development Enterprises (《房地產開發企業資質管理規定》), or the Circular 77, which was promulgated on 16 November 1993 and amended on 29 March 2000, 4 May 2015, 22 December 2018, and 2 March 2022, respectively, a real estate development enterprise shall apply for approval in accordance with the provisions of application for the enterprise qualification classification. Qualifications of a real estate enterprise are classified into two qualification classes: Class I and Class II on the basis of their financial conditions, experience in real estate development business, construction quality, the professional personnel and quality control system etc. Pursuant to the Circular 77, enterprises of various qualification classes shall engage in real estate development projects within the approved scope of business and shall not undertake any tasks which fall outside the approved scope of their own qualification classes.

Regulations Related to Land Use Right

The PRC Land Administration Law (《中華人民共和國土地管理法》), which was promulgated by the Standing Committee of the NPC, or the SCNPC, on 25 June 1986 and last amended on 26 August 2019, permits the transfer of land use rights for value. Pursuant to the Interim Regulations on Assignment and Transfer of the Rights to the Use of the State-Owned Urban Land (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), or the Regulations on Assignment and Transfer, promulgated by the State Council on 19 May 1990, and amended on 29 November 2020,

REGULATORY OVERVIEW

a system of assignment and transfer of the right to use state-owned land was adopted. A land user must pay land premiums to the state as consideration for the assignment of the right to use a land site within a certain term, and the land user who obtained the right to use the land may transfer, lease out, mortgage, or otherwise commercially exploit the land within the term of use. Under the Regulations on Assignment and Transfer and the Urban Real Estate Law, the local land administration authority may enter into an assignment contract with the land user for the assignment of land use rights. The land user is required to pay the land premiums as provided in the assignment contract. After the full payment of the land premium, the land user must register with the land administration authority and obtain a land use rights certificate that evidences the acquisition of land use rights.

Pursuant to the Civil Code of the PRC (《中華人民共和國民法典》), which was promulgated by the NPC and became effective on 1 January 2021, the term of the construction land use right for residential property shall be automatically renewed upon expiry. The payment, reduction of or exemption from the renewal fee shall be handled in accordance with the provisions of laws and administrative regulations. The term of the construction land use right for non-residential property shall be renewed upon expiry pursuant to the provisions of the law.

Pursuant to the Regulations on the Grant of Use Right of State-owned Land by Bidding, Auction or Listing (《招標拍賣掛牌出讓國有土地使用權規定》), which was promulgated by the MLR, on 9 May 2002, land for commercial use, tourism, entertainment and commodity housing development shall be granted by means of tender, public auction or listing-for-sale. According to the Regulations on Granting State-owned Construction Land Use Rights through Bidding, Auction and Listing (《招標拍賣掛牌出讓國有建設用地使用權規定》), or the Land Grant Regulations, which was promulgated by the MLR on 28 September 2007 and came into force on 1 November 2007, it provides that where the designated use of certain piece of land falls within the scope of commercial uses, such as industrial, commercial, tourism, entertainment and commercial housing etc., or where there are two or more intended users for the same piece of land, the grant of land use rights shall be made via competitive processes. The Land Grant Regulations also provide a number of measures to ensure such grant of land use rights for commercial purposes is conducted in accordance with the principles of openness, fairness, justice and good faith.

The Regulations on Grant of State-owned Land Use Rights by Agreement (《協議出讓國有土地使用權規定》), which was promulgated by the MLR on 11 June 2003, regulates the grant of land use rights by agreement. If there is only one entity interested in acquiring the land, the land use rights (excluding land use rights for business purposes including commercial, tourism, entertainment and residential commodity properties) may be assigned by way of agreement. If two or more entities are interested in the land use rights to be assigned, such land use rights shall be granted by means of tender, auction or listing-for-sale.

REGULATORY OVERVIEW

According to the Urban Real Estate Law, those who have obtained land use rights through grant for real estate development must develop the land in accordance with the land use and the construction period as prescribed in the grant contract. Where construction does not commence within one year of commencement of construction as stipulated in the contract, an idle land fee may be charged at a rate of not more than 20% of the total fee for the grant of land use rights. Where construction does not commence within two years, land use rights may be recovered without compensation, except where the commencement of construction is delayed due to force majeure, an act of the government or relevant government departments, or preliminary work necessary for the commencement of construction.

Pursuant to the Measures on Disposal of Idle Land (《閒置土地處置辦法》), which was promulgated by the MLR on 28 April 1999 and amended on 1 June 2012, the land shall be determined as idle land, if (i) any state-owned construction land, of which the holder of the land use rights fails to commence the construction and development within one year as of the construction commencement date as agreed on and specified in the contract for paid use of state-owned construction land or the land allocation decision; or (ii) the development and construction of the state-owned land has been suspended for one year where the construction has commenced with its development area accounts for less than one third of the total development area or its actual investment accounts for less than 25% of the total investment. Unless the delay in construction commencement is caused by government actions or due to the force majeure such as natural disasters, the land administrative authorities shall discuss with the holder of state-owned construction land use rights and select the methods for disposal provided in the Measures on Disposal of Idle Land.

Regulations on Urban Renewal Projects

According to the Implementation Opinions on Further Promoting the Renovation of the Old Town, Old Factories and Old Villages (“**Three-Old Renovation**”) (《深入推進“三舊”改造工作實施意見》) promulgated by the Guangdong Provincial Department of Land and Resources and implemented on 4 April 2018, local governments shall accurately annotate land maps and establish databases for renovation, as well as carefully review whether the selected land meets the renovation standard. The municipal government shall upload the adjusted database of Three-Old Renovation to the Provincial Land and Resources Technology Centre for recording purpose. The collection and formality examination authority regarding Three-Old Renovation is delegated by the provincial government to the municipal government. According to the Measures for the Administration of the Renovation of the Old town, Old Factories and Old Villages of Guangdong Province (《廣東省舊城鎮舊廠房舊村莊改造管理辦法》) promulgated by the Guangdong Provincial People’s Government and implemented on 1 March 2021, The government, original owner and other entities can be regarded as the implementation body to carry out the Three-Old Renovation. Except for regulated otherwise, if the original owners or most of the original owners

REGULATORY OVERVIEW

were state-owned enterprises, collective economic organisations or other public economic sectors, they shall choose their partner of implementation in a transformation method such as public bidding, listing, etc.

According to Detailed Rules for the Implementation of Three-Old Renovation in Dongguan City (for Trial Implementation) (《東莞市“三舊”改造實施細則(試行)》) promulgated by Dongguan Municipal People’s Government on 16 December 2009 and amended on 24 January 2014, comprehensive renovation of old towns, old villages and old factories, functional change or demolition and reconstruction, can be divided into four types: government-led renovation (政府主導), private capital participation in renovation (社會資金參與改造), renovation of collective economic organisations (集體經濟組織自行改造), and renovation of original land users (原土地使用權人自行改造). And according to Detailed Rules for the Implementation of Three-Old Renovation in Dongguan City (for Trial Implementation) the Municipal Three-Old Renovation Leading Group (市“三舊”改造領導小組) is responsible for coordinating the city’s Three-Old renovation work and solving major problems in the Three-Old renovation. The district competent department shall prepare the area planning plan, and after the renewal plan is approved by the municipal competent department, the district government shall lead the implementation of the renovation plan. As for the land grant procedure, under the private capital participation mode, there should be a transformation method such as public bidding, listing, etc. for at least one of the procedure whether recognised as the renovation entity or obtaining the land use right; under renovation of collective economic organisations or original land users mode, the land can be granted to the renovation entity by signing an agreement with the government; while under the government-led renovation mode, the land must be granted through the procedure of bidding, auction or listing-for-sale.

Regulations Related to Construction Projects

Pursuant to the Regulations on Planning Administration Regarding Granting and Transfer of State-owned Land Use Rights in Urban Area (《城市國有土地使用權出讓轉讓規劃管理辦法》), which was promulgated by the Ministry of Construction on 4 December 1992 and amended on 26 January 2011, a Construction Land Planning Permit (建設用地規劃許可證) should be obtained from the municipal planning authority with respect to the planning and use of land. Pursuant to the PRC Urban and Rural Planning Law (《中華人民共和國城鄉規劃法》) which was promulgated by the SCNPC on 28 October 2007 and amended on 24 April 2015 and 23 April 2019, respectively, a Construction Work Planning Permit (建設工程規劃許可證) must be obtained from the competent urban and rural planning government authority for the construction of any structure, fixture, road, pipeline, or other engineering project within an urban or rural planning area.

REGULATORY OVERVIEW

After obtaining a Construction Work Planning Permit, subject to certain exceptions, a construction enterprise must apply for a Construction Work Commencement Permit (建築工程施工許可證) from the construction authority under the local people's government at the county level or above, pursuant to the Administrative Provisions on Construction Permit of Construction Projects (《建築工程施工許可管理辦法》), which was promulgated by MOHURD, on 15 October 1999 and amended on 4 July 2001, 25 June 2014, 28 September 2018 and 30 March 2021, respectively.

Pursuant to the Administrative Measures for Reporting Details Regarding Acceptance Examination upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》), which was promulgated by the Ministry of Construction on 4 April 2000 and amended on 19 October 2009, and the Provisions on Acceptance Examination upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收規定》), which was promulgated by the MOHURD on 2 December 2013, upon the completion of a construction project, the construction enterprise must submit an application to the competent government department at or above county level where the project is located for examination upon completion of building and for filing purpose, and to obtain the filing form for acceptance and examination upon completion of construction project.

Regulations on Environmental Protection, Work Safety and Fire Prevention

Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) which was promulgated by the SCNPC on 26 December 1989 and amended on 24 April 2014, enterprises, public institutions and other producers and business operators that discharge pollutants shall take measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues, medical waste, dust, malodorous gas, radioactive substances, noise, vibration, optical radiation and electromagnetic radiation and others generated during production, construction or other activities. Enterprises and public institutions that discharge pollutants shall each establish an environmental protection responsibility system and specify the responsibilities of the persons in charge and relevant personnel thereof.

According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), which was promulgated by the SCNPC on 28 October 2002 and amended on 2 July 2016 and 29 December 2018, respectively, and the Rule on Classification for Environmental Impact Assessment of Construction Projects (《建設項目環境影響評價文件分級審批規定》), which was promulgated by the former Ministry of Environmental Protection on 16 January 2009 and became effective on 1 March 2009, the state classifies the management over the assessment of the environmental impacts of construction projects according to the seriousness of the impacts. If the environmental impacts may be significant, a comprehensive assessment report of the environmental impacts is required; if the environment impacts may be gentle, an analysis or specific assessment report of environmental impacts is required; if the environment impacts may

REGULATORY OVERVIEW

be very small so that it is not necessary to conduct an assessment of the environmental impacts, a registration form of the environmental impacts is required. The construction work shall not start before the environmental impact assessment documents are approved by competent administrative department.

According to the Rules on the Administration concerning Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated by the State Council on 29 November 1998 and amended on 16 July 2017, and the Interim Measures concerning the Environmental Protection Acceptance Check on Construction Projects (《建設項目竣工環境保護驗收暫行辦法》), promulgated by the former Ministry of Environmental Protection on 20 November 2017, where a construction project needs complementary environmental protection facilities, those facilities must be designed, constructed and become operational at the same time as the main parts of the project. The project owner shall, after the completion of the construction project for which the environmental impact report or the environmental impact statement is prepared, according to standards and procedures prescribed by the environmental protection administrative department of the State Council, conduct acceptance check of the constructed complementary environmental protection facilities. The construction project may not be put into production or use until the constructed supporting environmental protection facilities have passed the acceptance check. The facilities that have not undergone or fail to pass the acceptance check shall not be put into production or use.

Under relevant construction safety laws and regulations, including the PRC Work Safety Law (《中華人民共和國安全生產法》), which was promulgated by the SCNPC on 29 June 2002, amended on 27 August 2009, 31 August 2014 and 10 June 2021, respectively, production and operating business entities must establish objectives and measures for work safety and improve the working environment and conditions for workers in a planned and systematic way. A work safety protection scheme must also be set up to implement the work safety job responsibility system. In addition, production and operating business entities must arrange work safety training and provide their employees with protective equipment that meets the national or industrial standards.

According to the Interim Measures for the Supervision and Administration of “Three Simultaneities” for Safety Facilities of Construction Projects (《建設項目安全設施「三同時」監督管理辦法》), or the Construction Projects Safety Facilities Measures, which was promulgated by the State Administration of Work Safety on 14 December 2010 and amended on 2 April 2015, production and business operation entities shall be responsible for the construction of the safety facilities of construction projects. The “safety facilities of construction projects” refer to all devices, facilities, installations, fixtures, buildings and other technical measures used by production and business operation entities in production and operation activities for the purpose of preventing work safety accidents. It is required that safety facilities be designed, built and put into production and used simultaneously with the main part of the construction project. In addition, the

REGULATORY OVERVIEW

Construction Projects Safety Facilities Measures provides that, for the construction projects specially set forth in the Construction Projects Safety Facilities Measures, comprehensive research and pre-assessment on the safety conditions of the construction projects shall be conducted by qualified safety assessment body.

According to the PRC Fire Prevention Law (《中華人民共和國消防法》), which was promulgated by the SCNPC on 29 April 1998 and amended on 28 October 2008, 23 April 2019 and 29 April 2021, respectively, the fire prevention design of a construction project must conform to the national fire prevention technical standards of project construction. The designing, construction, project supervision and other entities shall be responsible for the quality of fire prevention design and construction quality according to the law. Where the housing and urban-rural development authority under the State Council requires that an application for fire prevention final inspection of an as-built construction project should be filed, the constructing party shall file such an application to the housing and urban-rural development authority. For a construction project other than one specified in the foregoing, the constructing party shall report to the housing and urban-rural development authority after final inspection for record, and the housing and urban-rural development authority shall conduct spot checks.

Regulations Related to Sale of Real Estate

According to the Administrative Measures for the Sale of Commodity Houses (《商品房銷售管理辦法》), or the Sale Measures, which was promulgated by the Ministry of Construction on 4 April 2001, the sale of commercial housing includes both post-completion sales and pre-sales.

Pre-sale of commodity properties

Any pre-sale of commercial housing shall be conducted in accordance with the Administrative Measures for the Pre-sale of Urban Commodity Housing (《城市商品房預售管理辦法》), or the Pre-sales Measures, which was promulgated by the Ministry of Construction on 15 November 1994, and amended on 15 August 2001 and 20 July 2004, respectively. Pursuant to the Pre-sales Measures, any pre-sale of commercial housing is subject to certain procedures. A permit for Pre-sale of Commercial Housing shall be obtained, if a real estate enterprise intends to pre-sell commercial housing and make the necessary pre-sale registration with the relevant development authority. According to the Pre-sales Measures and the Urban Real Estate Law, the incomings from pre-sales of commercial housings shall only be used for the construction of the relevant projects.

According to the Circular on Issues Concerning Further Strengthening the Supervision and Administration of the Real Estate Market and Improving the Pre-Sale System of Commodity Housing (《關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知》), or the Pre-sale Circular, which was promulgated on 13 April 2010, for any commercial housing project

REGULATORY OVERVIEW

which has obtained the pre-sale permit, the real estate developer shall, within 10 days, publicise all licensed housing and price of each set, and shall sell at the publicly announced price strictly in line with the declared price.

Measures Regarding the Supervision and Use of Pre-sale Proceeds

Applicable Laws and Regulations at National Level

Pursuant to the Pre-sale Circular and the Urban Real Estate Law, all proceeds from the pre-sales of commodity properties shall be supervised and managed by relevant authorities so as to ensure that the proceeds to be used for the development and construction of the corresponding projects. The proceeds from the pre-sales would be allocated according to the construction progress, provided that adequate fund has been reserved to ensure the completion and delivery of the projects. Under the Pre-sale Measures, a property developer may be ordered to rectify any non-compliances within a prescribed period of time and imposed a fine that equals three times of its illegal gains but less than RMB30,000 per project.

Relevant Laws and Regulations at Local Levels

Pursuant to the Pre-sale Measures and the Pre-sale Circular, provincial, municipal and other local governments are delegated and granted the authority to formulate, and supervise the implementation of detailed requirements of pre-sale proceeds.

According to the Regulations on Administration of Pre-sale of Commodity Properties of Guangdong Province (《廣東省商品房預售管理條例》), or Guangdong Regulation, promulgated by the Standing Committee of Guangdong Provincial People's Congress in July 1998, as amended in August 2000, July 2010 and September 2014, respectively, the property developers shall open supervised bank accounts of the pre-sale proceeds of commodity properties at the commercial bank of the place where the project is located before the pre-sale of commodity properties. The pre-sale proceeds shall only be used with the amount approved by the local real estate registration office for the purpose of purchasing construction materials, devices, and paying for construction progress fees and taxes. Buyers shall directly deposit the proceeds of pre-sales of commodity properties into the supervised bank account according to the contract and shall provide the bank deposit to the property developer to get the payment voucher. The property developer may be ordered to rectify any non-compliances and imposed a fine of more than 10% and less than 20% of the funds illegally used. The qualification for real estate development of the property developer may be demoted or written off in case of violation.

REGULATORY OVERVIEW

According to the Supervision System for Proceeds from Pre-sales of Commodity Properties on Dongguan (《東莞市商品房預售款監管工作制度》) jointly promulgated by the Construction Bureau of Dongguan and Housing Management Bureau of Dongguan on 15 October 2007, and the Notice on Further Enhancing the Administration of Pre-sale Proceeds of Commodity Properties on Dongguan (《關於進一步加強我市商品房預售款收存管理的通知》), jointly promulgated by Dongguan Property and City Development Bureau and Housing Management Bureau of Dongguan on 23 August 2018, the pre-sale proceeds of commodity properties shall be directly deposited into the supervised bank account. Before the completion of the construction, the pre-sale proceeds can only be used to purchase construction materials, devices and paying for construction progress fees and tax for the relevant property. Without the approval of relevant governmental authority, the project developer may not use pre-sale proceeds for any other purpose. The property developer may be ordered to rectify the non-compliance regarding the deposit and use of pre-sale proceeds and imposed a fine of more than 10% and less than 20% of the funds illegally used. According to the Circular on Further Strengthening Differentiated Administration of the Use of Pre-sale Payments of the Commodity Properties (《關於進一步加強商品房預售款使用差異化管理的通知》), promulgated by Dongguan Property and City Development Bureau on 15 May 2019, the use of pre-sale proceeds shall be subject to differentiated regulatory modes (e.g. Level A, Level B and Level C), in light of the property developer's operation scale and its good faith in performance. Sufficient proceeds shall be remain in the supervised account subject to differentiated regulatory modes. According to the Notice on Further Regulating the Administration of the Deposit and Use of Pre-sale Payments of the Commodity Properties (《關於進一步規範商品房預售資金收存和使用管理的通知》), promulgated by Dongguan Property and City Development Bureau on 3 November 2022, the project developer may withdraw and use the pre-sale proceeds of commodity properties after the required proportion of pre-sale proceeds have been reserved in the supervised bank account, and such reserved proportion is determined in accordance with the construction progress of the project.

According to the Measures for Supervision and Administration of Pre-sale Proceeds of Huizhou Commodity Housing (《惠州市商品房預售資金監督管理辦法》), or the Huizhou Measures, promulgated by Huizhou Municipal People's Government Office on 26 March 2021, the proceeds from pre-sales of commodity properties shall be directly deposited into the supervised bank account. Before the completion of the construction, the pre-sale proceeds can only be used to purchase construction materials, devices and paying for construction progress fees and tax for the relevant property, and sufficient proceeds have to remain in the supervised account subject to the construction progress. The property developer may be ordered to rectify the non-compliance regarding the deposit and use of pre-sale proceeds and imposed a fine of more than 10% and less than 20% of the funds illegally used.

REGULATORY OVERVIEW

Sales after Completion of Commodity Properties

Under the Sale Measures, commodity properties may be put to post-completion sale only when the following conditions have been satisfied: (i) the real estate development enterprise offering to sell the post-completion buildings shall have an enterprise legal person business license and a qualification certificate of real estate development; (ii) the enterprise has obtained land use right certificates or other approval documents of land use; (iii) the enterprise has obtained the Construction Project Planning License and the Construction Work Commencement License; (iv) the commodity properties have been completed and been inspected and accepted as qualified; (v) the relocation of the original residents has been well settled; (vi) the supplementary essential facilities for supplying water, electricity, heating, gas and communication have been made ready for use, and other supplementary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date have been specified; and (vii) the property management proposal has been completed.

According to the Rules on Sales of Commercial Houses at Clearly Marked Prices (《商品房銷售明碼標價規定》), which was promulgated by the NDRC on 16 March 2011, any real estate enterprise is required to mark the selling price clearly and explicitly for both newly-built and second-hand commercial properties.

Regulations Related to Real Estate Registration

The Interim Regulations on Real Estate Registration (《不動產登記暫行條例》), which was promulgated by the State Council on 24 November 2014 and amended on 24 March 2019, provides for the following:

- the competent department of land and resources under the State Council shall be responsible for guiding and supervising the real estate registration of the State;
- the real estate authority shall establish a uniform real estate registration book to record the items including, without limitation, the natural condition, ownership conditions of the real estate and restriction of rights;
- the competent department of land and resources under the State Council shall, in coordination with other related departments, establish a uniform basic management database for real estate registration information. The information registered by the real estate registration authorities at all levels shall be incorporated into the uniform basic database to ensure the real-time sharing of registration information at the national, provincial, municipal and county level; and

REGULATORY OVERVIEW

- any right holder or interested party may apply for inquiring about or copying the real estate registration materials, and the registration authority shall not refuse to provide such information. Units and individuals inquiring about the real estate registration information shall not use such registration information for any other purpose, and no such information may be disclosed to the public or others without the consent of the right holder.

The Implementing Rules of the Interim Regulations on Real Estate Registration (《不動產登記暫行條例實施細則》), which was promulgated on 1 January 2016 and amended on 24 July 2019, authorises the real estate registration authority to perform a site inspection following an acceptance of the application for real estate registration and sets out regulations regarding real estate registration information management.

Regulations Related to Lease Properties

The Administrative Measures for Commercial House Leasing (《商品房屋租賃管理辦法》), or the New Lease Measures, which was promulgated by MOHURD on 1 December 2010 and came into effective on 1 February 2011, the parties concerned to a housing leasing shall go through the housing leasing registration formalities with the competent construction (real estate) departments within thirty (30) days after the lease contract is signed. Non-compliance with such registration and filing requirements shall be subject to fines no more than RMB1,000 for individuals and from RMB1,000 to RMB10,000 for enterprises, provided that they fail to rectify such non-compliance within the required time limits. Pursuant to the Civil Code of the PRC (《中華人民共和國民法典》), the term of a leasing contract shall not exceed 20 years.

Pursuant to the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Cases Involving Disputes over Urban House Lease Contracts (《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》), which was promulgated by the Supreme People's Court on 30 July 2009 and came into effect on 1 September 2009, and last amended on 29 December 2020 and came into effect on 1 January 2021, a party requests for recognising the invalidity of a lease contract on the ground that such contract is not registered in accordance with laws and administrative regulations, the people's court shall not uphold such request.

Regulations Related to Real Estate Financing

The Guideline for Commercial Banks on Risks of Real Estate Loans (《商業銀行房地產貸款風險管理指引》), or the Guideline, which was promulgated by the China Banking Regulatory Commission, or the CBRC, on 30 August 2004, commercial banks shall not grant any form of loans to a project owner that has not obtained the state-owned land use certificate, the

REGULATORY OVERVIEW

Construction Land Planning Permit, the Construction Work Planning Permit, or the Construction Work Commencement Permit. The Guideline also provides that bank loans shall only be extended to real estate enterprises who contributed at least 35% of the total investment of the property development project by its own capital. Furthermore, the Guideline also provides that commercial banks shall, when handling real estate development loans, establish a strict loan project approval mechanism.

The Circular on Promoting Economical and Intensive Use of Land through Finance (《關於金融促進節約集約用地的通知》), which was promulgated by the PBOC and the CBRC on 29 July 2008, provides the following:

- it restricts from granting loans to real estate enterprises exclusive for the payment of land grant premiums;
- for a land reserve loan in the form of mortgage, there shall be a lawful land use certificate, the maximum mortgage ratio shall not exceed 70% of the appraised value of the collateral and, in principle, the term of loan shall not exceed two years;
- for real estate enterprises who (i) delays the commencement of development date as agreed in the land grant contract for more than one year, or (ii) has only developed less than one-third of the intended project, or (iii) has not invested one-fourth of the intended total project investment, loans shall be granted or extended prudently;
- it prohibits granting loans to real estate projects whose land has been idle for two years or longer; and
- it prohibits taking idle land as a security for loans.

Regulations Related to Borrowing Criteria for Property Developers and Management of Individual Housing Credit

On 28 December 2020, the PBOC and the China Banking and Insurance Regulatory Commission (the “**CBIRC**”) promulgated the Notice on Establishment of a Concentration Management System for Real Estate Loans of Financial Institutions (《關於建立銀行業金融機構房地產貸款集中度管理制度的通知》) (the “**Joint Notice**”) which came into effect on 1 January 2021 to strengthen financial regulations in real estate industry. The Joint Notice requires the ratio of real estate loans and the ratio of personal housing loans shall not exceed the upper limit of the ratio of real estate loans or the upper limit of the ratio of personal housing loans determined by the PBOC and the CBIRC, and the development banks and policy banks shall implement this requirements by making the necessary changes. Financial institutions in the banking industry whose concentration

REGULATORY OVERVIEW

of real estate loans exceeds the management requirements shall have an adjustment plan to progressively attain the management requirements within the business adjustment transitional period. The Joint Notice does not raise the interest rates of individual housing loans, but limits the proportion of individual housing loans of various commercial banks, which are control measures taken by the PRC government to curb the real estate market and promote steady and healthy development of the real estate market.

Regulations Related to House Purchase Restriction, Tighter Down-payment Requirements

The real estate market in the PRC is highly subject to government policies and regulations. In order to curb the rapid rise in housing price and control speculative demand, the PRC government has imposed a series of strict restrictions, including house purchase restrictions (限購), tighter down-payment requirements (限貸), and limiting the selling price of properties (限價).

Dongguan

According to the Notice on Further Strengthening the Regulation and Control of Real Estate Market (《關於進一步加強房地產市場調控的通知》), jointly promulgated by the Housing and Urban Rural Development Bureau of Dongguan and other bureaus on 27 February 2021, and the Notice on Further Regulating and Controlling Real Estate Market (《關於進一步做好房地產市場調控工作的通知》), jointly promulgated by the Housing and Urban Rural Development Bureau of Dongguan and other bureaus on 2 August 2021, residents shall provide social security records dated within two years of the purchase date which have been paid or accumulated in Dongguan city for at least half year, while the non-local residents shall provide social security records dated within four years of the purchase date which have been paid or accumulated in Dongguan city for at least two years; the minimum percentage of down payment of the purchase price of the residential property of a resident family is 30%; and the record prices of new residential properties shall not be higher than the record prices of residential properties of the same type of the same area or the record prices of the same project. According to the Notice on Strengthening Classified Guidance and Optimizing Housing Purchase Restriction Policies (《關於加強分類指導優化住房限購政策的通知》), jointly promulgated by the Housing and Urban Rural Development Bureau of Dongguan and other bureaus on 4 July 2022, the housing purchase restriction areas in Dongguan City are limited to Guancheng district, Dongcheng district, Nancheng district, Wanjiang district and Songshan Lake High Tech Industrial Development Zone, while other areas are not subject to the housing purchase restriction policy. Our development projects in Dongguan are located in Fenggang Town, which do not fall within the above house purchase restrictions, therefore we have not been subject to the house purchase restriction policy since 4 July 2022.

REGULATORY OVERVIEW

According to the Notice on Further Optimizing the Real Estate Regulation and Control Policies (《關於進一步優化房地產調控政策的通知》), promulgated by the Housing and Urban Rural Development Bureau of Dongguan and other bureau on 26 December 2022, the purchase of Guancheng district, Dongcheng district, Nancheng district, Wanjiang district and Songshan Lake High Tech Industrial Development Zone are no longer subject to house purchase restrictions policy.

Huizhou

According to the Notice on Further Promoting the Steady and Healthy Development of the Real Estate Market of Huizhou (《關於進一步促進我市房地產市場平穩健康發展的通知》), jointly promulgated by Housing and Urban Rural Development Bureau of Huizhou and other bureaus on 9 August 2021, non-local residents can only purchase one new residential property in Huiyang District and Daya Bay Economic and Technology Development Zone; and the record of selling prices of residential properties is under strict control. As our project in Huizhou is located in Boluo County, which does not fall within the above house purchase restrictions, we are not subject to such house purchase restrictions policy. According to the Notice on Promoting the Healthy Development and Virtuous Cycle of the Real Estate Industry (《關於促進房地產業健康發展和良性循環的通知》), jointly promulgated by Housing and Urban Rural Development Bureau of Huizhou and other bureaus on 30 April 2022, Huiyang District and Daya Bay Economic and Technological Development Zone are no longer included in the areas with house purchase restrictions.

Foshan

According to the Notice on City-based Policies Concerning Further Improving the Real Estate Regulation and Control Policies (《關於因城施策進一步完善房地產調控政策的通知》), jointly promulgated by the Foshan Housing and Urban-Rural Development Bureau and other bureaus on 2 June 2022, the housing purchase restriction areas in Foshan City are limited to Zumiao sub-district of Chancheng district, Guicheng sub-district of Nanhai district and Daliang sub-district of Shunde district, while other areas are not subject to the housing purchase restriction policy. According to the Notice on Further Optimizing the Real Estate Regulation and Control Policies (《關於進一步優化房地產調控政策的通知》), promulgated by the Foshan Housing and Urban-Rural Development Bureau on 9 December 2022, the purchase of new residential properties in Zumiao sub-district of Chancheng district, Guicheng sub-district of Nanhai district and Daliang sub-district of Shunde district are no longer subject to house purchase restrictions policy. As our project in Foshan is located in Gaoming District, which does not fall within the above house purchase restrictions, we are not subject to such house purchase restrictions policy.

REGULATORY OVERVIEW

Regulations Related to Taxes

Enterprise Income Tax

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law, which became effective on 1 January 2008 and was subsequently amended on 24 February 2017 and 29 December 2018, and the Implementation of the Law on Enterprise Income Tax of the PRC (《中華人民共和國企業所得稅法實施條例》), or the Implementation Rule, which was effective on 6 December 2007, and amended on 23 April 2019, enterprises are classified as resident enterprises and non-resident enterprises. PRC resident enterprises typically pay an enterprise income tax at the rate of 25%, while non-PRC resident enterprises which do not have an establishment or place of business in the PRC should pay an enterprise income tax in connection with their income from the PRC at the tax rate of 10%. An enterprise established outside of the PRC with its “de facto management bodies” located within the PRC is considered a “resident enterprise”, meaning that it can be treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The Implementation Rule defines a de facto management body as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

Value-Added Tax

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》), promulgated on 13 December 1993 and last amended on 19 November 2017 and its implementation regulations, unless otherwise specified by relevant laws and regulations, any entity or individual engaged in the sales of goods, provision of processing, repairs and replacement services and importation of goods into China is generally required to pay a value-added tax, or VAT, for revenues generated from sales of products, while qualified input VAT paid on taxable purchase can be offset against such output VAT.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation further promulgated the Notice on Fully Promoting the Pilot Plan for Replacing Business Tax by Value-Added Tax (《關於全面推開營業稅改徵增值稅試點的通知》), which became effective on 1 May 2016. Since 1 May 2016, the government will collect value-added tax in lieu of business tax on a trial basis within the territory of the PRC and business tax payers in various industries such as construction industries, real estate industries, financial industries, and life service industries shall be included in the scope of the pilot program for the payment of VAT instead of business tax.

On 4 April 2018, the Ministry of Finance and the State Administration of Taxation issued the Notice on Adjustment of VAT Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》), which came into effect on 1 May 2018. According to the abovementioned notice, the taxable goods

REGULATORY OVERVIEW

previously subject to VAT rates of 17% and 11%, respectively, become subject to lower VAT rates of 16% and 10%, respectively, starting from 1 May 2018. Furthermore, according to the Announcement on Relevant Policies for Deepening Value-added Tax Reform (《關於深化增值稅改革有關政策的公告》) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, which became effective on 1 April 2019, the taxable goods previously subject to VAT rates of 16% and 10%, respectively, become subject to lower VAT rates of 13% and 9%, respectively, starting from 1 April 2019.

Under the Announcement of the SAT on Promulgating the Interim Administrative Measures for the Collection of Value-added Tax on the Sale of Self-developed Real Estate Projects by Real Estate Developers (《國家稅務總局關於發布〈房地產開發企業銷售自行開發的房地產項目增值稅徵收管理暫行辦法〉的公告》), promulgated on 31 March 2016 and amended on 15 June 2018, real estate developers are required to pay VAT for the sales of its self-developed real estate project.

Land Appreciation Tax

Under the Interim Regulations on Land Appreciation Tax of the PRC (《中華人民共和國土地增值稅暫行條例》), or the Land Appreciation Tax Regulation, which was promulgated by the State Council on 13 December 1993 and was last amended on 8 January 2011, and its implementation rules, which was issued on 27 January 1995 (《中華人民共和國土地增值稅暫行條例實施細則》), all entities and individuals receiving income from the transfer of state-owned land use rights, ground buildings and their attachments are taxpayers of the land appreciation tax and shall pay the land appreciation tax. The land appreciation tax shall be assessed and collected based on the amount of increased value received by the taxpayers from the transfer of real estate and the tax rates prescribed in the Land Appreciation Tax Regulation. Four levels of progressive rates will be adopted for the land appreciation tax: a) for part of the amount of increased value not exceeding 50% of the sum of deductible items, the tax rate is 30%; b) for the part of the amount of increased value exceeding 50% but not exceeding 100% of the sum of deductible items, the tax rate is 40%; c) for the part of the amount of increased value exceeding 100% but not exceeding 200% of the sum of deductible items, the tax rate is 50%; d) for the part of the amount of increased value exceeding 200% of the sum of deductible items, the tax rate is 60%.

Income Tax Related to Dividend Distribution

The EIT Law and the Implementation Rule provide that an income tax rate of 10% should normally be applicable to dividends payable to investors that are “non-resident enterprises,” and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced

REGULATORY OVERVIEW

pursuant to a tax treaty between China and other jurisdictions. Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, or the Double Tax Avoidance Arrangement (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》), which was promulgated on 21 August 2006 and came into effect on 8 December 2006, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) issued on 20 February 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 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 Relevant Issues Concerning the “Beneficial Owners” in Tax Treaties (《國家稅務總局關於稅收協定中「受益所有人」有關問題的公告》) issued on 3 February 2018 by the SAT and effective from 1 April 2018, which replaces the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties and the Announcement on the Recognition of Beneficial Owners in Tax Treaties by the SAT, comprehensive analysis based on the stipulated factor therein and actual circumstances shall be adopted when recognising the “beneficial owner” and agents and designated wire beneficiaries are specifically excluded from being recognised as “beneficial owners”.

According to the Announcement on Promulgating the Administrative Measures for Convention Treatment for Non-resident Taxpayers (《關於發佈〈非居民納稅人享受協定待遇管理辦法〉的公告》), which was promulgated on 14 October 2019 and came into effect on 1 January 2020, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the collection and preservation of relevant materials for review pursuant to these measures and the subsequent administration by the tax authorities.

Real Estate Tax

On 23 October 2021, the 31st Session of the SCNPC adopted the Real Estate Tax Reform Policy, authorizing the State Council to carry out a pilot program of real estate tax reform in certain areas. The Real Estate Tax Reform Policy clarifies that the taxation objects of real estate tax are various types of real estate for residential use and non-residential use in urban areas, and that the holders of land use rights and owners of houses are taxpayers of the real estate tax. The Real Estate Tax Reform Policy authorizes the State Council to formulate specific measures for the

REGULATORY OVERVIEW

real estate tax pilot program and determine the list of cities for the pilot program and file the record with the SCNPC. The Real Estate Tax Reform Policy also authorizes the people's governments of pilot areas to formulate specific implementing rules. According to the Real Estate Tax Reform Policy, the period for the real estate tax pilot program shall be five years from the date when the measures for the pilot program are officially issued by the State Council.

Regulations Related to Employment, Social Insurance and Housing Fund

Pursuant to the PRC Labour Law (《中華人民共和國勞動法》), which was promulgated by the SCNPC on 5 July 1994 and amended on 27 August 2009 and 29 December 2018, respectively, and the PRC Labour Contract Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2007 and was last amended on 28 December 2012, employers must execute written labour contracts with full-time employees. All employers must comply with local minimum wage standards. Violations of the PRC Labour Contract Law and the PRC Labour Law may result in the imposition of fines and other administrative and criminal liability in the case of serious violations.

In addition, according to the PRC Social Insurance Law (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and last amended on 29 December 2018, and the Regulations on the Administration of Housing Funds (《住房公積金管理條例》), which was promulgated on 3 April 1999 and amended on 24 March 2002 and 24 March 2019, employers in China shall provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, and medical insurance and housing funds. Pursuant to the Reform Plan for Collection and Management System of National and Local Taxes (《國稅地稅徵管體制改革方案》) released by General Office of the Communist Party of China and the State Council on 20 July 2018, all social insurance premiums, such as basic pension insurance premium, basic medical insurance premium, unemployment insurance premium, work-related injury insurance premium and maternity insurance premium, shall be collected uniformly by the relevant tax authorities starting from 1 January 2019.

Regulations Related to Foreign Exchange and Dividend Distribution

Regulation on Foreign Currency Exchange

The principal regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administrative Regulations (《中華人民共和國外匯管理條例》), or the SAFE Regulations, which was promulgated by the State Council and last amended on 5 August 2008. According to the SAFE Regulations, payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE, by complying with certain

REGULATORY OVERVIEW

procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of China.

According to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》), or the Circular 13, which was promulgated on 13 February 2015, the foreign exchange registration under both domestic direct investments and overseas direct investments are directly reviewed and handled by banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

On 23 October 2019, SAFE issued Circular of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment (《關於進一步促進跨境貿易投資便利化的通知》), or the Circular 28, which took effect on the same day. Circular 28 allows non-investment foreign-invested enterprises to use their capital funds to make equity investments in China, provided that such investments do not violate the effective special entry management measures for foreign investment (negative list) and the target investment projects are genuine and in compliance with laws.

Regulations on Dividend Distributions

The principal laws, rule and regulations governing dividends distribution by companies in the PRC are our Company Law, which applies to both PRC domestic companies and foreign-invested companies, and the Foreign Investment Law and its implementing rules, which apply to foreign-invested companies. Under these laws, regulations and rules, both domestic companies and foreign-invested companies in the PRC are required to set aside as general reserves at least 10% of their after-tax profit, until the cumulative amount of their reserves reaches 50% of their registered capital. PRC companies are not permitted to distribute any profit until any loss 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.