PRC TAXATION

Dividend Tax

Individual Investors

In accordance with the *Individual Income Tax Law of the People's Republic of China* which was last amended on 31 August 2018 and implemented on 1 January 2019, and the *Regulations on the Implementation of the Individual Income Tax Law of the People's Republic of China* which was last amended on 18 December 2018 and implemented on 1 January 2019, dividends paid by Chinese companies to individuals are subject to individual income tax at a rate of 20%.

In accordance with the *Notice of the Ministry of Finance and the State Taxation Administration on Certain Policy Issues Concerning Individual Income Tax*, dividends and bonuses received by foreign individuals from foreign-invested enterprises are temporarily exempted from individual income tax. In accordance with the *Notice of the State Council Forwarded to the National Development and Reform Commission and Other Departments Concerning Several Opinions on Intensifying Reform of the Income Distribution System*, exempting dividend income received by foreign individuals from foreign-invested enterprises from individual income tax and other tax incentives are removed. In practice, in accordance with the *Notice on Issues Concerning the Collection and Administration of Individual Income Tax upon the Abolition of Guoshuifa [1993] Document No. 045* promulgated and implemented by the State Taxation Administration on 28th June 2011, dividends paid by H-share issuers to individual non-China-domiciled H-share holders shall be subject to the Chinese individual income tax at a rate determined by applicable tax treaties or tax arrangements between China and the jurisdiction in which the shareholder resides. These rates range from 5% to 20% and are generally withheld at a 10% rate, and that no application is needed. In the case where the dividend withholding tax rate of 10% does not apply, it shall be handled according to the following provisions: (1) Where an individual who receives dividends and bonuses is a resident of a treaty country with a tax rate lower than 10%, the withholding agent may refund the excess amount of tax withheld in accordance with the provisions of the *Measures for the Administration of Tax Convention Treatment for Non-resident Taxpayers*. (2) Where an individual who receives dividends and bonuses is a resident of a treaty country with a tax rate higher than 10% but lower than 20%, the withholding agent shall withhold individual income tax according to the actual rate as agreed when paying the dividends and bonuses, and that no application is needed. (3) Where an individual who receives dividends and bonuses is a resident of a country that does not have a tax treaty with China, the withholding agent shall withhold individual income tax at a rate of 20% when paying the dividends and bonuses.

Corporate Investors

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* which was last amended on 29 December 2018 and implemented on the same day, and the *Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China* which came into effect on 23 April 2019, where a non-resident enterprise that does not have any establishment or place of business within China or that has an establishment or place of business in China but whose China-sourced income is not effectively connected with such establishment or place of business, it is generally required to pay a 10% enterprise income tax for the China-sourced income (including dividends and bonuses received by Chinese resident enterprises from shares issued in Hong Kong). Where the aforementioned income tax is payable by non-resident enterprises, it shall be withheld at the source, and with the payer as the withholding agent. The tax shall be deducted from the sum to be paid or due by the withholding agent at the time when each payment is made or due.

It has further been clarified in the *Notice on Issues Concerning Withholding Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H-share Holders which are Overseas Non-resident Enterprises* (Guoshuihan No. [2008] 897) promulgated by the State Taxation Administration on 6 November 2008 that, when paying dividends for 2008 and beyond, Chinese resident enterprises must withhold enterprise income tax at a rate of 10% on dividends paid to H-share holders which are overseas non-resident enterprises. Non-resident corporate shareholders entitled to a reduction in tax rate under a tax treaty or arrangement may apply to the competent tax authorities to recover the excess amount of tax withheld. The *Reply on Issues Concerning the Collection of Enterprise Income Tax on B Shares and Other Stock Dividends Received by Non-resident Enterprises* (Guoshuihan [2009] No. 394) promulgated by the State Taxation Administration on 24 July 2009 has further pointed out that Chinese resident enterprises publicly offering or listing shares (A shares, B shares and overseas stocks) in China and abroad shall, when paying dividends for 2008 and beyond to non-resident corporate shareholders, withhold and pay enterprise income tax at a unified rate of 10% on their behalf. Non-resident corporate shareholders entitled to tax convention treatment shall comply with relevant provisions of the tax agreement. In accordance with the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on income and the Prevention of Tax Dodging and Tax Evasion* signed by the Chinese government and Hong Kong on 21 August 2006, the Chinese government may levy taxes on dividends payable by Chinese companies to Hong Kong residents. If the beneficiary is one that directly owns at least 25% of the shares of the company that is paying the dividends, it shall be 5% of the total dividends; in any other cases, it shall be 10% of the total dividends.

In addition, in accordance with the *Notice of the State Taxation Administration on Issues Concerning the Implementation of Dividend Clauses in Tax Treaties* which was promulgated and came into force on 20 February 2009, when a Chinese resident company pays dividends to tax residents of a counterparty to the tax treaty, such tax residents of the counterparty may pay taxes on the dividends received according to the rate under the tax treaty and shall meet the following conditions: (1) the tax resident who receives the dividends shall be a company under the tax treaty; (2) the owner's equity and voting rights of the Chinese resident company directly owned by the tax resident shall reach the stipulated percentage; and (3) at any time during the 12 months prior to payment of the dividends, equity of the Chinese resident company directly owned by the tax resident shall reach the proportion stipulated in the tax treaty.

In addition, in accordance with the *Administrative Measures on Preferential Treatment Entitled by Non-residents Taxpayers* which was promulgated by the State Taxation Administration on 14 October 2019 and came into force on 1 January 2020, non-resident taxpayers who are eligible for any preferential treatment under any agreement are entitled to automatically enjoy such preferential treatment at the time of making the tax declaration, or enjoy preferential treatment on their own through the withholding agent at the time of making the withholding declaration, and shall be subject to subsequent management by the competent tax authorities. As for non-resident enterprises that receive dividends from a Chinese resident enterprise (as defined by the Chinese tax law), they shall submit relevant reports and information relating to their first tax return, or relevant reports and information of their first withholding declaration for the corresponding tax year through the withholding agent. In the event that all the conditions for preferential treatment are met and the information reported remains unchanged, non-resident taxpayers shall be entitled to exemption from the re-submission of relevant information to the same competent tax authorities with respect to the same preferential treatment within three calendar years from the year when the reports and information are submitted.

Capital Gains Tax

Individual Investors

In accordance with the *Notice on Continuing the Temporary Exemption of Individual Income Tax on Individuals' Income from the Transfer of Shares* promulgated by the Ministry of Finance and the State Taxation Administration on 20 March 1998, starting from 1 January 1997, temporary exemption of individual income tax on individuals' income from the transfer of shares of listed companies will be continued. In the newly-amended *Individual Income Tax Law* and its implementation regulations, it has not been clearly stipulated by the State Taxation Administration whether individuals' income from the transfer of shares of listed companies will continue to be exempted from taxation or not.

On 31 December 2009, the Ministry of Finance, the State Taxation Administration and the China Securities Regulatory Commission jointly issued the *Notice on Issues Concerning the Levy of Individual Income Tax on Individuals' Income from the Transfer of Restricted Shares of Listed Companies*, stipulating that individuals' income from the transfer of shares of listed companies that are obtained from the public issuance of listed companies and the transfer market on relevant domestic stock exchanges will continue to be exempted from individual income tax. However, starting from 1 January 2010, individuals' income from the transfer of restricted shares will be subject to individual income tax as "income from the transfer of property" and a 20% proportional tax rate shall apply. Up to now, it has not been clearly provided for in relevant regulations whether individual income tax will be levied with respect to the transfer of shares of Chinese resident enterprises listed on overseas stock exchanges by non-Chinese-resident individuals. As far as the Company is aware, in practice, the Chinese tax authorities have not yet imposed income tax on the transfer of shares of Chinese resident enterprises listed on overseas stock exchanges by non-Chinese resident individuals.

Corporate Investors

In accordance with the *Enterprise Income Tax Law* and its implementation regulations, where a non-resident enterprise that does not have any establishment or place of business within China or that has an establishment or place of business in China but whose China-sourced income is not effectively connected with such establishment or place of business, it is generally required to pay a 10% enterprise income tax for the China-sourced income (including proceeds from the sale of equity in Chinese resident companies). Where the aforementioned income tax is payable by non-resident enterprises, it shall be withheld at the source, and with the payer as the withholding agent. The tax shall be deducted from the sum to be paid or due by the withholding agent at the time when each payment is made or due.

Inheritance Tax

In accordance with the Chinese laws, as of now, no inheritance tax has been levied in China.

Enterprise Income Tax

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* which was last amended on 29 December 2018 and implemented on the same day, and the *Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China* which came into effect on 23 April 2019, enterprises that are set up according to law inside China or in accordance with laws of foreign countries (regions) but with actual management institutions inside China are resident enterprises. Resident enterprises shall pay enterprise income tax on their income derived from China and abroad. The enterprise income tax rate is 25%. Preferential treatments in respect of enterprise income tax shall be granted to industries and projects that are specifically supported and encouraged by the State. Eligible small-scale enterprises with low profitability are subject to enterprise income tax at a reduced rate of 20%. High and new technology enterprises that are specifically supported by the State are subject to enterprise income tax at a reduced rate of 15%. In accordance with the *Administrative Measures for the Accreditation of High and New Technology Enterprises* which was promulgated on 29 January 2016 and came into force on 1 January 2016, high and new technology enterprises may apply for preferential tax treatments in accordance with the *Enterprise Income Tax Law*, the *Tax Collection Administration Law of the People's Republic of China* which came into effect on 24 April 2015 and the *Regulations for the Implementation of the Tax Collection Administration Law of the People's Republic of China* which came into effect on 6 February 2016.

Value-added Tax

In accordance with the *Provisional Regulations of the People's Republic of China on Value-added Tax* promulgated by the State Council on 13 December 1993 and last amended on 19 November 2017 (hereinafter referred to as the "VAT Regulations"), and the *Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax* promulgated by the Ministry of Finance on 25 December 1993 and last amended on 28 October 2011, companies engaging in the sale of goods or provision of processing, repair, maintenance and other labour services, the sale of services, intangible assets and immovable properties and the import of goods in China are value-added tax payers who shall pay value-added tax. Except as otherwise provided in the *VAT Regulations*, the value-added tax rate for the sale of goods, provision of labour services, leasing of tangible movable properties or import of goods is 17%.

In accordance with the *Notice on the Overall Implementation of the Pilot Programme of Replacing Business Tax with Value-added Tax* jointly promulgated by the Ministry of Finance and the State Taxation Administration on 23 March 2016, starting from 1 May 2016, the trial programme of replacing business tax with value-added tax will be fully promoted nationwide. According to measures for the implementation of the trial programme and other specific normative documents, taxpayers who have taxable behaviours must pay value-added tax at varying rates of 17%, 11%, 6% to 0%.

In accordance with the *Announcement on Policies Relating to the Intensification of Value-added Tax Reform* which was promulgated by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on 20 March 2019 and came into effect on 1 April 2019, where general value-added tax payers are engaging in value-added taxable sales or imported goods and that the value-added tax was originally levied at a 16% rate, the tax rate is adjusted to 13%; where the value-added tax was originally levied at a 10% rate, the tax rate is adjusted to 9%.

In accordance with the Provisional Regulations of the People's Republic of China on Value-Added Tax rolled out by the State Council in 2017, the Notice Concerning the Continuation of Preferential Policies on Value-added Tax, Real Estate Tax and Urban Land Use Tax for Heat Service Enterprises issued by the Ministry of Finance and the State Taxation Administration in 2019 and Announcement on Extension of the Implementation Period of Certain Preferential Tax Policies issued by the Ministry of Finance and the State Taxation Administration in 2021, heating fee income collected from individual residents by heat service enterprises in Northeast China, North China and Northwest China is exempted from value-added tax, the preferential tax policy shall be extended to the end of the heating period in 2023. The NDRC, the Ministry of Finance and other departments issued the Opinions on Further Encouraging and Guiding the Entry of Private Capital into the Urban Water Supply, Gas, Heat Supply, Sewage and Waste Treatment Industries in 2016 which has also highlighted the continued implementation of tax reduction and exemption policies for heat service enterprises.

Land Use Tax

In accordance with the *Provisional Regulations of the People's Republic of China on Urban Land Use Tax* promulgated by the State Council on 27 September 1988 and amended on 2 March 2019, companies and individuals using land within the boundary of cities, county towns, established townships, and industrial and mining areas are urban land use tax payers who shall pay land use tax. The annual amount of land use tax per square metre is as follows: (1) from RMB1.5 to RMB30 for large cities; (2) from RMB1.2 to RMB24 for medium-sized cities; (3) from RMB0.9 to RMB18 for small cities; (4) from RMB0.6 to RMB12 for county towns, established townships and industrial and mining areas.

Tax Treaties

Non-Chinese-resident investors who reside in a country that have already signed a double taxation agreement with China or who reside in Hong Kong or Macau may enjoy withholding tax concessions on dividends received from Chinese companies. Currently, China has signed agreements or arrangements to avoid double taxation with a number of countries and regions, including Hong Kong, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-Chinese-resident companies that are entitled to preferential tax rates in accordance with relevant agreements or arrangements are required to apply to the Chinese tax authorities for the refund of withholding tax paid in excess of the agreed tax rate, and that the repayments are subject to approval by the Chinese tax authorities.

HONG KONG TAXATION

Tax on dividends

Under the current practices of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital gains and profit tax

No tax is imposed in Hong Kong in respect of capital gains from the sales of H Shares. However, trading gains from the sales of H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers (for example, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment purposes. Trading gains from sales of H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Stock Exchange realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.13% on the higher of the consideration for, or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of Hong Kong securities, including H Shares (in other words, a total of 0.26% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable, and no estate duty clearance papers are needed for the application of a grant of representation in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

FOREIGN EXCHANGE CONTROLS OF THE PRC

Renminbi, the legal tender of China, is currently subject to foreign exchange controls and cannot be fully convertible into foreign currencies. Authorised by the People's Bank of China, the State Administration of Foreign Exchange ("SAFE") has the power to perform the function of managing all matters relating to foreign exchange, including the implementation of regulations governing foreign exchange control.

On 29 January 1996, the State Council promulgated the *Regulations of the People's Republic of China on the Administration of Foreign Exchange* (hereinafter referred to as the "Foreign Exchange Control Regulations") which came into effect on 1 April 1996. In the *Foreign Exchange Control Regulations*, all international payments and transfers were classified into current account and capital account. Most items under the current account were not required to be approved by the SAFE, whereas those under the capital account were still subject to the approval of the SAFE. The *Foreign Exchange Control Regulations* were subsequently amended on 14 January 1997 and 5 August 2008. It is stipulated in the newly-amended *Foreign Exchange Control Regulations* that the State would not impose any restriction on international payments and transfers under the current account.

On 20 June 1996, the People's Bank of China promulgated the *Administrative Regulations on the Settlement and Sale of and Payment in Foreign Exchange* which came into effect on 1 July 1996. The foregoing abolished the remaining restrictions on foreign exchange for current accounts, but still retained restrictions on foreign exchange transactions for capital accounts.

In accordance with *Announcement on Improving Reform of the Renminbi Exchange Rate Forming Mechanism* which was issued by the People's Bank of China on 21 July 2005 and came into effect on the same day, starting from 21 July 2005, China began to implement a floating exchange rate system which is being adjusted and managed with reference to a basket of currencies on the basis of market supply and demand. The renminbi exchange rates were no longer pegged to the US dollar alone. After the market closes on each working day, the People's Bank of China announced the closing price of the exchange rate of the US dollar and other trading currencies against the renminbi in the interbank foreign exchange market for the current day as the central parity of the currency against the renminbi for the next working day.

Starting from 4 January 2006, with the aim of improving the formation of the central parity rate of renminbi, the People's Bank of China introduced inquiry transactions in the interbank spot foreign exchange market while retaining the matching approach. In addition, a market maker system was introduced by the People's Bank of China in the interbank foreign exchange market to provide liquidity to the foreign exchange market. On 1 July 2014, the People's Bank of China further improved the marketised renminbi exchange rate forming mechanism. The China Foreign Exchange Trading Centre was authorised by the People's Bank of China to make price inquiries to market makers in the interbank foreign exchange market before the opening of the inter-bank foreign exchange market on each day, and calculate the central parity of renminbi against the US dollar using the quoted prices of market makers as samples. After removing the highest and lowest quotes, the remaining quotes were weighted and averaged to obtain the central parity of renminbi against the US dollar for the current day, and a public announcement on the central parity of renminbi against the US dollar and other trading currencies for the current day would be made at 9:15 am on each working day. On 11 August 2015, the People's Bank of China announced that it would improve quotation for the central parity of renminbi against the US dollar. Before the opening of the interbank foreign exchange market on each day, quoted prices were provided by market makers to the China Central Foreign Exchange Trading Centre with reference to the closing exchange rates in the interbank foreign exchange market on the previous day, taking into comprehensive consideration of foreign exchange supply and demand as well as changes in the international exchange rate of major currencies.

On 5 August 2008, the State Council promulgated the amended *Foreign Exchange Management Regulations* which has made major changes to the foreign exchange regulatory system in China. First of all, it adopted a balanced treatment of inflows and outflows of foreign exchange funds, whereby overseas foreign exchange receipts may be transferred back to China or deposited outside the country, and that foreign exchanges and foreign exchange settlement funds under capital accounts may only be used for purposes approved by relevant competent authorities and foreign exchange administrations. Second, it improved the renminbi exchange rate forming mechanism that is based on market supply and demand. Third, it strengthened the monitoring of cross-border foreign exchange capital flows. The State may, in the event of the occurrence or likelihood of a series imbalance in the incomes and expenditures relating to cross-border transactions, or in the event of the occurrence or likelihood of a serious crisis, take necessary safeguards or control measures. Fourth, it strengthened the supervision and management of foreign exchange transactions and granted extensive powers to the SAFE to enhance its supervision and management capabilities.

In accordance with relevant Chinese laws and regulations, when Chinese enterprises (including foreign-invested enterprises) are in need of foreign exchange in conducting current account transactions, payments may be made through a foreign exchange account in the designated foreign exchange bank without the approval of the SAFE, but valid transaction receipts and vouchers must be provided. Foreign-invested enterprises that need to distribute profits to shareholders in foreign exchange as well as Chinese enterprises (such as the Company) that need to pay dividends to shareholders in foreign exchange in accordance with relevant regulations may, according to the resolution of their board of directors or general meetings of shareholders on profit distribution, make payments from a foreign exchange account in the designated foreign exchange bank, or make exchanges and payments at the designated foreign exchange bank.

On 23 October 2014, the State Council promulgated the *Decision of the State Council on Cancelling and Adjusting a Batch of Projects for Administrative Review and Approval and Other Matters* (Guofa [2014] No. 50). It was decided that the review and approval of the SAFE and its branch offices on the transfer-in and settlement of proceeds raised overseas under overseas listed foreign shares would be cancelled.

On 26 December 2014, the SAFE issued the *Notice of the State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Administration of Overseas Listings*. According to the notice, a domestic company shall, within 15 working days from the end of the overseas listing and issuance, handle the overseas listing registration with a branch of the SAFE in the place where it is registered. Proceeds from the overseas listing may be transferred back to corresponding special domestic accounts or deposited into special overseas accounts, and the use of funds shall be consistent with relevant contents contained in the document and other publicly disclosed documents.

On 13 February 2015, the SAFE issued the *Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies on the Foreign Exchange Administration of Direct Investment* (Huifa [2015] No. 13) which came into effect on 1 June 2015, cancelling confirmation of foreign exchange registration under domestic direct investment and 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 branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

In accordance with the *Notice of the State Administration of Foreign Exchange on Reforming and Regulating the Administrative Policies for the Settlement of Capital Accounts* issued by the SAFE on 9 June 2016, the settlement of foreign exchange receipts under the capital account (including funds recovered from overseas listing) that are subject to discretionary settlement as already specified by relevant policies may be handled at banks according to the actual business needs of domestic institutions. The proportion of discretionary settlement of foreign exchange receipts under the capital account for domestic institutions is temporarily determined as 100%. The SAFE may, based on the balance of payments, make adjustment to the aforesaid proportion when appropriate.

On 26 January 2017, the SAFE promulgated the *Notice of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance* (Huifa [2017] No. 3), further expanding the settlement scope of domestic foreign exchange loans to allow settlement of domestic foreign exchange loans for exports under trade in goods; allowing funds under onshore guarantees for offshore indebtedness to be transferred back and used domestically; allowing overseas institutions in pilot free trade zones to have their foreign exchange settled through domestic foreign exchange accounts; and implementing a full-calibre management of domestic and foreign currencies for the overseas lending business. In the overseas lending business of a domestic institution, the sum of the balance of overseas loans denominated in domestic currency and the balance of overseas loans denominated in foreign currencies shall not exceed 30% of its owner's equity in the audited financial statements for the previous year.

On 23 October 2019, the SAFE promulgated the *Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment* (Huifa [2019] No. 28), on the basis that investment-oriented foreign-invested enterprises may carry out domestic equity investment with capital funds in accordance with laws and regulations, allowing foreign-invested enterprises which is not investment-oriented to carry out domestic equity investment with capital funds in accordance with laws, under the premise of not violating the current *Special Administrative Measures (Negative List) for the Access of Foreign Investment* and the authenticity and compliance of the invested project.