

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

### 1. TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current laws and practices, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulation. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as of the Latest Practicable Date, all of which are subject to change and may have retrospective effect.

This discussion does not address any aspects of PRC or Hong Kong taxation other than income tax, capital tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

#### A. The PRC Taxation

##### *Taxation on Dividends*

##### *Individual Investor*

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

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), (the “**Arrangement**”) which was signed on August 21, 2006, the Chinese Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of the total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《第五議定書》) issued by the State Administration of Taxation (“**SAT**”), which came into effect on December 6, 2019, adds a criteria for the qualification of entitlement to enjoy treaty benefits. Although there may be other provisions under the Arrangement, such

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benefits shall not be granted in the circumstance where relevant gains, after taking into account all relevant facts and conditions, are reasonably deemed to be one of the main purposes for the arrangement or transactions which will bring any direct or indirect benefits under this Agreement, unless it can be confirmed that the grant of benefits under such circumstance is consistent with relevant objective and goal under the Arrangement. The application of the dividend clause of tax agreements is subject to the requirements of PRC tax law and regulation, such as the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《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》) (Guo Shui Han [2009] No. 81).

### *Enterprise Investors*

In accordance with the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) issued by NPC on March 16, 2007, implemented on January 1, 2008 and subsequently amended on February 24, 2017 and December 29, 2018 and the Implementation Provisions of the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) issued by the State Council on December 6, 2007, came into effect on January 1, 2008 and amended in 2019 (hereinafter collectively referred to as the “CIT Law”), a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income (including dividends received from a PRC resident enterprise), if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. The aforesaid income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

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

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Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), which was signed on August 21, 2006, the Chinese Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of the total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《第五議定書》) issued by the SAT, which came into effect on December 6, 2019, adds a criteria for the qualification of entitlement to enjoy treaty benefits. Although there may be other provisions under the Arrangement, the treaty benefits under the criteria shall not be granted in the circumstance where relevant gains, after taking into account all relevant facts and conditions, are reasonably deemed to be one of the main purposes for the arrangement or transactions which will bring any direct or indirect benefits under this Agreement, except when the grant of benefits under such circumstance is consistent with relevant objective and goal under the Arrangement. The application of the dividend clause of tax agreements is subject to the requirements of PRC tax law and regulation, such as the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《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》) (Guo Shui Han [2009] No. 81).

### *Tax Treaties*

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

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### *Taxation on Share Transfer*

#### *VAT and Local Additional Tax*

Pursuant to the Notice on Fully Implementing the Pilot Reform for the Transition from Business Tax to Value-added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) (hereinafter referred to as “**Notice 36**”), which was implemented on May 1, 2016, entities and individuals engaged in the sale services, intangible assets or real estate in the PRC are subject to Value-added Tax (hereinafter referred to as “**VAT**”) and “engaged in the sale services in the PRC” means that the seller or buyer of the taxable services is located in the PRC. Notice 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable revenue (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer. However, individuals who transfer financial products are exempt from VAT.

According to these regulations, if the holder is a non-resident individual, the PRC VAT is exempted from the sale or disposal of H shares; if the holder is a non-resident enterprise and the H-share buyer is an individual or entity located outside China, the holder is not necessarily required to pay the PRC VAT, but if the H-share buyer is an individual or entity located in China, the holder may be required to pay the PRC VAT.

However, in view of no clear regulations, whether the non-Chinese resident enterprises are required to pay the PRC VAT for the disposal of H shares, there is still uncertainty in the interpretation and application of the above provisions. At the same time, VAT payers are also required to pay urban maintenance and construction tax, education surtax and local education surcharge (hereinafter collectively referred to as “**Local Additional Tax**”), which shall usually equal to 12% of the VAT payable (if any).

### *Income Tax*

#### *Individual Investors*

According to the IIT Law, gains on the transfer of equity interests in the PRC resident enterprises are subject to individual income tax at a rate of 20%.

Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the Ministry of Finance (“**MOF**”) and the SAT on March 30, 1998, from January 1, 1997, income of individuals from transfer of the shares of listed enterprises continues to be exempted from individual income tax. The SAT has not expressly stated whether it will continue to exempt tax on income of individuals from transfer of the shares of listed enterprises in the latest amended IIT Law.

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However, on December 31, 2009, the MOF, the SAT and CSRC jointly issued the Circular on Related Issues on Levying Individual Income Tax over the Income Received by Individuals from the Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No. 167), which came into effect on the same date, which states that individuals’ income from the transfer of listed shares obtained from the public offering of listed companies and transfer market on the SSE and the SZSE shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in the Supplementary Notice on Issues Concerning the Levy of Individual Income Tax on Individuals’ Income from the Transfer of Restricted Stocks of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70) jointly issued and implemented by such departments on November 10, 2010). As of the Latest Practicable Date, no aforesaid provisions have expressly provided that individual income tax shall be levied from non-Chinese resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges.

### *Enterprise Investors*

In accordance with the CIT Law, a non-resident enterprise is generally subject to corporate income tax at the rate of a 10% on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. Such income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. Such tax may be reduced or exempted pursuant to relevant tax treaties or agreements on avoidance of double taxation.

### *Stamp Duty*

Pursuant to the Stamp Tax Law of the PRC (《中華人民共和國印花稅法》) issued on June 10, 2021 and effective on July 1, 2022, entities and individuals that issue taxable certificates and conduct securities transactions within the territory of China shall pay stamp duty, thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

### *Estate Duty*

As of the date of this Document, there is no estate duty currently levied in the PRC.

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### *Taxation Policy of Shanghai-Hong Kong Stock Connect*

Under the Announcement on Continued Implementation of Individual Income Tax Policies Relating to Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and Mainland and Hong Kong Mutual Recognition of Funds (MOF Announcement [2019] No. 93) (《關於繼續執行滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告》(財政部公告2019年第93號)) came into effect on December 5, 2019, from December 5, 2019 to December 31, 2022, gains on price difference from transfer of shares derived by mainland individual investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect shall be exempted from individual income tax. Under the Notice of the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (《財政部、國家稅務總局、中國證券監督管理委員會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) which came into effect on November 17, 2014, for dividends and bonus obtained by mainland individual investors investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the H-share companies shall apply to China Securities Depository and Clearing Co., Ltd. (hereinafter referred to as “CSDCC”) for provision by CSDCC to the H-share companies register of mainland individual investors, and the H-share companies shall withhold individual income tax at the rate of 20%.

Under the Notice of the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) (《財政部、國家稅務總局、中國證券監督管理委員會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) which came into effect on November 17, 2014, gains on price difference from transfer of shares derived by mainland enterprise investors from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect are included in their total income and subject to enterprise income tax according to law. In particular, EIT will be exempted according to law for dividend and bonus income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend and bonus income obtained by mainland enterprises, the H-share companies will not withhold dividend and bonus income tax for mainland enterprises. The tax payable shall be declared and paid by the enterprises themselves.

### *Taxation Policy of Shenzhen-Hong Kong Stock Connect*

Under the Announcement on Continued Implementation of Individual Income Tax Policies Relating to Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and Mainland and Hong Kong Mutual Recognition of Funds (MOF Announcement [2019] No. 93) (《關於繼續執行滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告》(財政部公告2019年第93號)) came into effect on December 5, 2019, personal income tax will be temporarily exempted for transfer spread income derived from investment by mainland individual investors in



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stocks listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect from December 5, 2019 to December 31, 2022. Under the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) which came into effect on December 5, 2016, for dividends and bonus income obtained by mainland individual investors investing in H shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect, the H-share companies shall apply to CSDCC for provision by CSDCC to the H-share companies register of mainland individual investors, and personal income tax shall be withheld by H-share companies at the tax rate of 20%.

Under the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) which came into effect on December 5, 2016, transfer spread income derived by mainland enterprises from investing in shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect are included in their total income and subject to enterprise income tax according to law. In particular, EIT will be exempted according to law for dividend and bonus income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend and bonus income obtained by mainland enterprises, the H-share companies will not withhold dividend and bonus income tax for mainland enterprises. The tax payable shall be declared and paid by the enterprises themselves.

### B. Hong Kong Taxation

#### *Taxation on Dividends*

No tax is payable in Hong Kong in respect of dividends paid by our Company.

#### *Profits Tax*

Hong Kong profits tax will not be payable by any Shareholders (other than Shareholders carrying on a trade, profession or business in Hong Kong and holding the H Shares for trading purposes) on any capital gains made on the sale or other disposal of the Shares. Trading gains from the sale 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 chargeable to Hong Kong income tax rates of 16.5% on corporations and 15.0% on individuals, unless such gains are chargeable under the respective half-rates of 8.25% and 7.5% that may apply for the first HK\$2 million of assessable profits for years of assessment beginning on or after 1 April 2018. Gains from sales of H Shares effected on the Stock Exchange will be considered by the Hong Kong Inland Revenue Department to be derived from or arise in Hong Kong. Shareholders should take advice from their own professional advisers as to their particular tax position.

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### *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 no stamp duty is paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

### *AFRC Transaction Levy*

The AFRC Transaction Levy was applicable to all sale and purchase of securities at 0.00015% per side with effect from January 1, 2022, which will be regarded as one of the transaction costs.

### *Estate Duty*

Hong Kong estate duty was abolished effective from February 11, 2006. No Hong Kong estate duty is payable by Shareholders in relation to the Shares owned by them upon death.

## **2. PRINCIPAL TAXATION OF OUR COMPANY IN THE PRC**

### **Enterprise Income Tax**

According to the EIT Law, the PRC enterprise income tax rate is 25%, which is in line with the applicable tax rates for foreign-invested enterprises and foreign enterprises.

According to the Administrative Measures for Determination of High and New Tech Enterprises 《高新技術企業認定管理辦法》 promulgated by the Ministry of Science and Technology, the MOF and the SAT on April 14, 2008, amended on January 29, 2016 and became effective on January 1, 2016, enterprises recognized as high and new technology enterprises may apply for a preferential enterprise income tax rate of 15% in accordance with the relevant provisions of the EIT Law. According to the Notice Regarding the Promotion of the Income Tax Policy for Technologically Advanced Service Enterprises to the Whole Country (《關於將技術先進型服務企業所得稅政策推廣至全國實施的通知》) promulgated by the MOF, the SAT, MOFCOM, MOST and NDRC on November 2, 2017, and effective on January 1, 2018, the enterprise income tax shall be levied on certified technologically advanced service enterprises at a reduced tax rate of 15% across the country. The portion of the employee educational expenses of a certified technologically advanced service enterprise not exceeding 8% of its total salaries and wages shall be allowed to be deducted in calculating its taxable income; and the excessive portion shall be allowed to be carried forward to the subsequent tax years for deduction.



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### Value-added Tax

According to the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on December 13, 1993 and latest amended on November 19, 2017 (the “**Regulations on VAT**”), and the Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the MOF, came into effect on December 25, 1993 and latest amended on October 28, 2011, all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, sales of service, intangible assets and real estate and the importation of goods within the territory of the PRC shall be subject to value-added tax. All enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, sales of service, intangible assets and real estate and the importation of goods within the territory of the PRC shall pay value-added tax at the rate of 0%, 6%, 11% and 17% for the different goods it sells and different services it provides, unless otherwise provided. According to the Circular of the Ministry of Finance and the State Administration of Foreign Exchange on Adjusting Value-added Tax Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》), which was issued on April 4, 2018 and came into effect on May 1, 2018, where a tax payer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10%, respectively. According to the Announcement on Deepening Policies in relation to Value-added Tax Reform (《關於深化增值稅改革有關政策的公告》) which was promulgated on March 20, 2019 and became effective on April 1, 2019, where a tax payer engages in a taxable sales activity for the value-added tax purpose or imports goods, the VAT rates are reduced to 13% and 9%, respectively.

### FOREIGN EXCHANGE

The lawful currency of the PRC is Renminbi, which is currently subject to foreign exchange control and cannot be freely converted into foreign currency. The SAFE, with the authorization of the People’s Bank of China (“**PBOC**”), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

The principal regulations governing foreign currency exchange in China are Regulations for Foreign Exchange Control of the PRC (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Control Regulations**”) which was promulgated by the State Council on January 29, 1996, became effective on April 1, 1996 and was subsequently amended on January 14, 1997 and August 5, 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (Yin Fa [1996] No. 210) which was promulgated by the PBOC on June 20, 1996 and became effective on July 1, 1996. Pursuant to these regulations and other PRC rules and regulations on currency conversion, Renminbi is generally freely convertible for payments of current account items,

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such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of SAFE or its local counterparts is obtained.

According to the Announcement on Improving the Reform of the Renminbi (《關於完善人民幣匯率形成機制改革的公告》) issued by the PBOC on July 21, 2005, the PRC began to implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand with reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. The PBOC will publish the closing price of a foreign currency such as the US dollar traded against the Renminbi in the interbank foreign exchange market on each trading day after the closing of the market, and will fix the central parity for the transaction of such foreign currency against Renminbi on the following trading day.

From January 4, 2006, the PBOC introduced over-the-counter transactions into the inter-bank spot foreign exchange market for the purpose of improving the formation mechanism of the central parity of RMB exchange rates, and the practice of matching was kept at the same time. In addition, the liquidity of the foreign exchange market was also improved by adopting a market-making system in the interbank foreign exchange market.

The Foreign Exchange Control Regulations, which became effective on August 5, 2008, have made substantial changes to the foreign exchange regulatory system of the PRC. First, the Foreign Exchange Control Regulations adopted an approach of balancing the inflow and outflow of foreign exchange fund. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administration authorities. Second, the Foreign Exchange Control Regulations improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, the Foreign Exchange Control Regulations enhanced the monitoring of cross-border foreign exchange fund flows. In the event that international revenues and expenditure suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures on international revenues and expenditure. Fourth, the Foreign Exchange Control Regulations enhanced the supervision and administration of foreign exchange transactions and grant extensive authority to the SAFE to strengthen its supervisory and administrative ability.

According to the relevant State rules and regulations, all of the foreign exchange revenue of the PRC enterprises from the current account transactions may be retained or sold to financial institutions operating a foreign exchange sale or settlement business. Foreign exchange income from loans granted by overseas entities or from the issuance of bonds and shares is not required to be sold to, but may be deposited in foreign exchange accounts at, designated foreign exchange banks.

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PRC enterprises (including foreign investment enterprises) which need foreign exchange for transactions relating to current account items may, without the approval of the SAFE, effect payment from their foreign exchange accounts or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange may, on the strength of resolutions of the board of directors or the shareholders’ meeting approving the distribution of profits, effect payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

The Decision of the State Council on Cancelling and Adjusting a Group of Administrative Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No. 50), which was issued and became effective on October 23, 2014, has cancelled the approval by the SAFE and its branches for matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《關於境外上市外匯管理有關問題的通知》) (Hui Fa [2014] No. 54) issued by the SAFE on December 26, 2014, a domestic company shall, within 15 business days from completion of its initial public offering overseas, register the overseas listing with the SAFE’s local branch at the place of its incorporation. The proceeds from an overseas listing of a domestic company may be remitted to a domestic account or deposited overseas, and the use of the proceeds shall be consistent with the content of the document and other disclosure documents.

Pursuant to the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) issued by the SAFE on June 9, 2016, discretionary settlement of foreign exchange income in capital account can be settled at the banks based on the actual operating needs of the domestic institutions. The proportion of discretionary settlement of foreign exchange capital income for domestic institutions is temporarily set at 100%. The SAFE may timely adjust the above proportion based on international revenue and expenditure situations.