

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

### TAXATION OF SECURITY HOLDERS

#### Taxation

The following is a summary of certain PRC and Hong Kong tax consequences arising from ownership of H Shares by investors who purchase such H Shares in the [REDACTED] and hold the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special provisions. This summary is based on the tax laws of the PRC and Hong Kong in effect as at the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section does not address any aspect of taxation of the PRC or Hong Kong other than income tax, capital tax, value-added tax, stamp duty and estate duty. [REDACTED] are advised to consult their own tax advisers regarding the PRC, Hong Kong and other tax consequences of investing in [REDACTED].

#### PRC TAXATION

##### Business Income Tax Laws and Regulations

The tax rate shall be 25%, pursuant to the Law of the People’s Republic of China on Enterprise Income Tax promulgated by the National People’s Congress in March 2007 and amended and validated in February 2017 and December 2018, respectively, and the Implementation Regulations on the Law of the People’s Republic of China on Enterprise Income Tax promulgated by the State Council in December 2007 and amended and validated in April 2019. A non-resident enterprise that establishes an institution or site within the territory of China shall pay the business income tax on the income originating in China obtained by its institution or site and on the income that is incurred outside the territory of China but is actually related to such an institution or site. The applicable tax rate shall be 20% where a non-resident enterprise doesn’t establish an institution or site within the territory of China or establishes an institution or site within the territory of China but the related income is not related to such an institution or site. The business income tax is levied at a reduced tax rate of 15% for a hi-tech enterprise accessing major support of the State.

The business income tax shall be collected at a reduced tax rate of 15% for an enterprise in an encouraging industry that is established in the western region from January 1, 2011 to December 31, 2020, pursuant to the Circular on Taxation Policy Issues in Implementing the Western Region Development in Depth promulgated and validated by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation in July 2011.

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### Value-added Tax Laws and Regulations

Unless otherwise specified by the aforesaid laws and regulations, such a taxpayer as sells goods, provides the processing, repair and assembly service or imports goods within the territory of China shall pay the value-added tax, pursuant to the Tentative Value-added Tax Regulations promulgated by the State Council in December 1993 and revised and validated in November 2008, February 2016 and November 2017 respectively as well as the Implementation Rules on the Tentative Value-added Tax Regulations promulgated by the Ministry of Finance in December 1993 and amended and validated by the Ministry of Finance and the State Administration of Taxation in December 2008 and October 2011 respectively.

As at January 1, 2012, the Ministry of Finance and the State Administration of Taxation started rolling out the Pilot Scheme for Change from Business Tax to Value-added Tax (“Business Tax-Value-added Tax Pilot Scheme”), the Business Tax-Value-added Tax Pilot Scheme stipulates that the business tax shall be changed to the value-added tax for the production-related service sectors such as “transport” in some regions and some “modern service sectors”, and finally, the pilot ended up expanding to the rest regions in 2013. Such an institution or individual as sells services, intangible assets or real estate (hereinafter referred to as “taxable behavior”) within the territory of the People’s Republic of China shall be a value-added taxpayer and pay the value-added tax, pursuant to the Circular on Carrying Out the Pilot of Changing Business Tax to Value-added Tax in All-round Manner (“Comprehensive Business Tax-Value-added Tax Pilot Scheme”) promulgated by the Ministry of Finance and the State Administration of Taxation in May 2016, amended in July 2017, December 2017 and March 2019 and validated in April 2019. After the implementation of the Comprehensive Business Tax-Value-added Tax Pilot Scheme, the tax rate shall be 6% when a taxpayer incurs a taxable behavior. In addition, if a taxpayer provides transport, post, basic telecom, construction and real estate leasing services, or sells real estate or transfers the land use right, the tax rate shall be 11%, and if the taxpayer provides the tangible asset leasing services, the tax rate shall be 17%. Furthermore, the tax rate shall be adjusted to 16% or 10% if the taxpayer incurs a sales behavior with value-added tax payable, pursuant to the Circular on Adjusting the Value-added Tax Rates promulgated by the Ministry of Finance and the State Administration of Taxation in April 2018 and validated in May 2018. If a general value-added taxpayer incurs a sales behavior with the value-added tax payable or imports goods and the original applicable tax rate is 16%, the tax rate shall be adjusted to 13%, and if the original tax rate is 10%, the tax rate shall be adjusted to 9%, pursuant to the Circular on Deepening Relevant Policies on Value-added Tax Reform promulgated by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on March 20, 2019 and validated on April 1, 2019.

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Pursuant to the Administrative Measures on Registration of General Value-added Taxpayers promulgated by the State Administration of Taxation in December 2017 and validated in February 2018, where the annual sales volume taxable exceeds the standard for small-sized taxpayers stipulated by the Ministry of Finance and the State Administration of Taxation, a taxpayer shall handle the general taxpayer registration with the competent tax authorities, unless otherwise specified by the aforesaid Measures. As at the effective date of general taxpayer registration, the taxpayer shall calculate the tax payable in line with the general taxation method of value-added tax and can claim the exclusive value-added tax invoice in accordance with provisions of the Measures.

Where a general value-added taxpayer sells a software product it develops and produces in house and the value-added tax is collected at a tax rate of 17%, the immediate collection and immediate rebate policy shall be implemented if its actual value-added tax burden is higher than 3%, pursuant to the Circular on Value-added Tax Policy on Software Products promulgated by the Ministry of Finance and the State Administration of Taxation in October 2011 and validated in January 2011.

### **Laws and Regulations On City Maintenance and Construction Tax**

The urban maintenance and construction tax is designed in line with urban maintenance and construction fund needs at different levels, and implements region-based differential proportional tax rates, that is, specify different proportional tax rates according to different administrative regions where taxpayers are based, including cities, counties or towns, pursuant to the Tentative Regulations of the People’s Republic of China on Urban Maintenance and Construction Tax promulgated by the State Council in February 1985 and amended and validated in August 2011 as well as its implementation rules. Specific provisions are stated as follows: (i) Where the domicile of the taxpayer is an urban area, the tax rate shall be 7%. The “city” as mentioned here means a city under the urban system approved by the State Council, and “urban area” means the scope of area under the jurisdiction of the city approved by the provincial people’s government (including suburbs). (ii) Where the domicile of the taxpayer is a county or town, the tax rate shall be 5%. The “county or town” as mentioned here means a county or a town under a county (district-level town) approved by the provincial people’s government, and the scope of a county or a town under county means the scope of urban area approved by the county people’s government.

### **Laws and Regulations On Educational Surcharge**

The educational surcharge is a governmental fund accrued and collected by the State to support the educational cause development and earmarked for education. The educational surcharge shall be based on the value-added tax, business tax and consumption tax actually paid by an institution or individual, the educational surcharge rate is 3%, and the surcharge shall be simultaneously paid together with the value-added tax, business tax and consumption tax, pursuant to the Tentative Regulations on the Collection of Educational Surcharge promulgated by the State Council in April 1986 and revised and validated in June 1990, August 2005 and January 2011, respectively.

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### **Laws and Regulations On Local Educational Surcharge**

The local educational surcharge is not a national uniform surcharge, and the people’s government of a province, autonomous region and municipality may, pursuant to the provisions of the relevant regulations issued by the State Council, decide to collect the local educational surcharge used for education and use the earmarks for particular purposes, pursuant to the Educational Law of the People’s Republic of China promulgated by the Standing Committee of the National People’s Congress in March 1995, promulgated in August 2009, December 2015 and validated in June 2016.

An institution or individual paying the value-added tax, consumption tax or business tax (herein after referred to as “Three Taxes”) within the administrative region of Shaanxi province shall pay the local educational surcharge at 2% of the amount of “Three Taxes” actually paid in addition to paying the educational surcharge in line with the provisions of the laws and regulations issued by the State, pursuant to the Administrative Measures of Shaanxi Province on Local Educational Surcharge promulgated and invalidated by the General Office of the Shaanxi Provincial People’s Government in February 2011.

### **Laws and Regulations On Water Construction Fund**

The water construction fund is collected at a reduced rate of 0.6‰ of the revenue from sales of commodity and rendering of service, and in particular, the fund is collected at the reduced rate of 0.4‰ of the revenue from the sales of commodity and rendering of service in China (Shaanxi) Free Trade Pilot Zone and Xi’an National Autonomous Innovation Demonstration Zone, pursuant to the Opinions of the General Office of the Shaanxi Provincial People’s Government on Several Fiscal and Taxation Measures Supporting Real Estate Development promulgated and validated by the Shaanxi Provincial People’s Government in November 2017.

From January 1, 2019 to December 31, 2020, an enterprise, public institution or self-employed operator that sells commodities and renders services within the territory of Shaanxi province shall be collected the water construction fund at a reduced rate of 0.5‰ of the revenue from sales of commodities and rendering of services, pursuant to the Circular on Reducing the Collection Standard for Water Construction Fund in Shaanxi Province promulgated and validated by the Finance Department of Shaanxi Province, the Water Resources Department of Shaanxi Province, Shaanxi Provincial Tax Service, State Administration of Taxation and Xi’an Branch of the People’s Bank of China in June 2019. In particular, the water conservation fund is collected at a reduced rate of 0.3‰ of the revenue from sales if an enterprise, public institution or self-employed operator that sells commodities and renders services there in China (Shaanxi) Free Trade Pilot Zone and Xi’an National Autonomous Innovation Demonstration Zone.

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Due to the impact of the COVID-19 pandemic, enterprises engaged in tourism, accommodation, catering, convention and exhibition, transport, education and training, cultural and artistic performance, film, television, theatre and other sectors suffering a hard hit from the epidemic shall be exempted from the water conservation fund and disabled persons’ employment security fund, pursuant to the Opinions of Shaanxi Provincial Tax Service, State Administration of Taxation on Tax and Surcharge Policy Measures to Win the Epidemic Prevention, Control and Resistance Campaign with Every Effort promulgated and validated by the State Administration of Taxation in February 2020.

### **Laws and Regulations On Stamp Duty**

Any institution or individual that establishes or claims vouchers listed under this Regulation within the territory of the People’s Republic of China shall be an obligated taxpayer of stamp duty and shall pay the stamp duty, pursuant to the Tentative Regulations of the People’s Republic of China on Stamp Duty promulgated by the State Council in August 1988 and amended and validated in January 2011 as well as the Implementation Rules on the Tentative Regulations of the People’s Republic of China on Stamp Duty promulgated and validated by the Ministry of Finance in September 1988. Pursuant to the schedule of stamp duty items and rates, a stamp shall be attached at 0.1% of the leasing amount on a property leasing contract and a stamp of RMB1 shall be attached if the tax amount is less than RMB1, a stamp shall be attached at 0.05% of the transport expense on a cargo transport contract, a stamp shall be attached at 0.1% of the warehousing and storage expense on a warehousing and storage contract, a stamp shall be attached at 0.03% of the amount indicated in a technical contract, a stamp shall be attached at 0.03% of the sales revenue on a purchase and sales contract, a stamp shall be attached at 0.05% of the processing or contracting amount on a processing and contracting amount, and a stamp shall be attached at 0.03% of the contracting amount or engineering costs on a construction and installation engineering contract.

### **Taxes Involving Dividends**

A Chinese enterprise shall withhold a personal income tax at 20% of the H-share dividend distributed to a personal investor, pursuant to the Individual Income Tax Law of the People’s Republic of China implemented as at September 1980, last amended in August 2018 and validated in January 2019 as well as the Implementation Regulations on the Individual Income Tax Law of the People’s Republic of China implemented as at January 1994, last amended in December 2018 and validated in January 2019.

If a personal investor acquires a share in a listed company on the public offering and transfer market and holds it for more than one year, the personal income tax shall be temporarily exempted against the dividend income, pursuant to the Circular on Relevant Questions about Differential Personal Income Tax Policy for Dividends from Listed Companies promulgated by the Ministry of Finance in September 2015 and amended in July 2019. If a personal investor acquires a share in a listed company on the public offering and transfer market and holds it for not longer than one month (including one month), the full amount of the dividend income shall be included in the income taxable, and if the holding term is one month to one year (including one year), the income shall be temporarily included in the income taxable at a reduced proportion of 50%. A uniform tax rate of 20% shall be used to accrue and collect the personal income tax on the aforesaid income.

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If an overseas personal resident shareholder obtains a dividend income from the share issued by an enterprise without foreign investment within the territory of the Chinese Mainland, the obligor of withholding shall withhold the personal income tax as the "interest and dividend income" item according to laws, pursuant to the Circular on Personal Income Tax Collection and Administration after Abolishment of GSF [1993] No. 045 issued by the State Administration of Taxation in June 2011. At the same time, if an enterprise without foreign investment within the territory of the Chinese Mainland offers shares in Hong Kong, its overseas personal resident shareholder can enjoy related tax credit in line with the tax treaty signed by the country of its residence and China and the tax arrangements between the Chinese Mainland and Hong Kong (Macau). The aforesaid circular also specifies that when distributing a dividend on the share issued in Hong Kong, an enterprise without foreign investment within the territory of the Chinese Mainland can generally withhold the personal income tax at a tax rate of 10% without the need to handle the application affair. Besides, if the dividend tax rate is not 10%, the following provisions shall apply: (i) If a personal investor obtaining the dividend is a resident from a country that enjoys a tax rate below 10% under the treaty, the obligor of withholding can, pursuant to the provisions of the "Circular", handle the application to enjoy the treatment under related treaty on behalf of the investor, and return the excessive tax after obtaining the approval from the competent tax authority; (ii) If a personal investor obtaining the dividend is a resident from a country that enjoys a tax rate above 10% and below 20% under the treaty, the obligor of withholding shall withhold the personal income tax at the actual tax rate when distributing the dividend and have no need to handle the application affair; (iii) If the personal investor that obtains the dividend is a resident from a country without tax treaties or is true with other situations, the obligor of withholding shall withhold the personal income tax at a tax rate of 20% when distributing dividend.

The dividend paid by a resident company of one party to a resident of the other party can be taxed by such other party, pursuant to the Arrangement between the Chinese Mainland and Hong Kong Special Administrative Region to Avoid Dual Taxation on Income and Prevent Tax Evasion and Omission signed by the Chinese Mainland and Hong Kong Special Administrative Region in August 2006. However, such dividends can also be taxed by the party in accordance with the laws of such party when the company paying the dividend is a resident of the party. Nevertheless, if the dividend beneficiary is a resident of the other party, the collected tax shall not exceed: (i) 5% of the total dividend if the beneficial owner is a company that directly owns at least 25% of the capital in the company paying the dividend; (ii) 10% of the total dividend in other cases. The competent authorities of both parties shall negotiate to determine and implement the methods that restrict the tax rate.

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### **HONG KONG**

#### **Tax on Dividends**

Under the current practice 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 sale of H Shares. However, trading gains from the sale of the 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 Hong Kong 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 Hong Kong 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 no stamp duty is 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 an application of a grant of representation in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

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### FOREIGN EXCHANGE CONTROL OF THE PRC

#### Foreign Exchange Control in China

Renminbi is the legal tender in China and subject to foreign exchange control. The State Administration of Foreign Exchange under the People's Bank of China is responsible for administering all affairs related to foreign exchange, including implementing foreign exchange control provisions.

In January 1996, the State Council promulgated the Foreign Exchange Control Regulations of the People's Republic of China ("Foreign Exchange Control Regulations"), which officially took effect in April 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current accounts and capital accounts. Most of the current account transactions involve no need to obtain the approval from the State Administration of Foreign Exchange, but capital account transactions shall be approved. The Foreign Exchange Control Regulations was amended in January 1997 and August 2008, and made a material change to China's foreign exchange supervision. First, the Foreign Exchange Control Regulations adopts the balance mode for the inflow and outflow of foreign exchange funds. Overseas foreign exchange incomes can be transferred to China or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital accounts shall only be used for purposes approved by the related authorities and the foreign exchange administration authorities. Second, the Foreign Exchange Control Regulations refines the formation mechanism for Renminbi exchange rate based on market supply and demand. Moreover, the Foreign Exchange Control Regulations strengthens the monitoring over foreign exchange flows across borders. The State can take necessary security or control measures when the balance of payments related to multinational transactions encounter or may encounter a serious imbalance or the economy incurs or may incur a serious crisis. In addition, the Foreign Exchange Control Regulations strengthens the supervision and administration of foreign exchange transactions and confers the State Administration of Foreign Exchange a broad array of powers and strengthens relevant supervision and administration capacity.

The Renminbi exchange rate is no longer pegged on the US dollar, China has started implementing a managed floating exchange rate regime and the exchange rate is determined in accordance with the market supply/demand and with reference to a basket of currencies, pursuant to the Circular on Refining the Reform of Formation Mechanism for Renminbi Exchange Rate promulgated by the People's Bank of China in July 2005. After closing every working day, the People's Bank of China announces the closing prices of Renminbi exchange rates against the US dollar and other trading currencies on the interbank foreign exchange market to serve as the middle price of the currency against Renminbi on the next working day.

China has cancelled the power of the State Administration of Foreign Exchange and its branches to approve the exchange settlement of the overseas proceeds under foreign capital shares of a domestic issuer listed overseas, pursuant to the Decision of the State Council to Cancel and Adjust A Batch of Administrative Approval Affairs promulgated and validated by the State Council in October 2014.



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A domestic issuer shall handle the overseas listing registration with the foreign exchange administration bureau in its place of registration within 15 working days after completing the overseas listing and offering, pursuant to the Circular on Foreign Exchange Control under Overseas Listing issued and validated by the State Administration of Foreign Exchange in December 2014. A domestic issuer can transfer the overseas listing proceeds to China or deposit the proceeds overseas, and the purpose of such proceeds shall be consistent with the content listed in public disclosure documents, including prospectus document, corporate bonds offering protocol, shareholders’ open letter and resolution of the board of directors or general meeting of shareholders.

In accordance with the Circular on Reforming and Standardizing the Policy on Foreign Exchange Settlement of Capital Accounts issued and validated by the State Administration of Foreign Exchange in June 2016, the related policy makes it clear that a domestic institution can handle the exchange settlement with the bank based on its actual operation need for the foreign exchange income (including recovered overseas listing proceeds) that implements voluntary exchange settlement under the capital accounts. The voluntary exchange settlement proportion for the foreign exchange income under the capital accounts is temporarily fixed at 100%. The State Administration of Foreign Exchange can adjust the aforesaid proportion in line with the balance-of-payments situation.

This Appendix sets forth summaries of certain aspects of PRC laws and regulations which are relevant to our Company’s operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in “Appendix III — Taxation and Foreign Exchange.” This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.