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## REGULATORY OVERVIEW

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This section summarises the principal PRC laws and regulations which are relevant to our business and operations. These include the laws and regulations relating to our ready-mixed concrete and PC components production and sales in the PRC and the relevant environmental protection, taxation, labour and foreign exchange laws and regulations. As this is a summary, it does not contain the detailed analysis of the PRC laws which are relevant to our business and operations.

### I. THE CONCRETE AND PC COMPONENT INDUSTRY

#### Industry policy

The “Interim Provisions on Promoting Industrial Structure Adjustment” (《促進產業結構調整暫行規定》) was promulgated by the State Council on 2 December 2005 with effect on the same day, and the “Guidance Catalogue of Industrial Structure Adjustment (2019)” (《產業結構調整指導目錄(2019)》) (collectively, “**Industrial Structure Adjustment Provisions**”) was promulgated by NDRC on 30 October 2019 and with effect on 1 January 2020. The “Guidance Catalogue of Industrial Structure Adjustment” is composed of three categories of industries, namely, the encouraged category, the restricted category and the eliminated category. The industries not belonging to the encouraged category, the restricted category or the eliminated category, but conforming to the relevant laws, regulations and policies of the state, shall belong to the permitted category. The permitted category shall not be listed into the “Guidance Catalogue of Industrial Structure Adjustment”. The new investments project under the restricted category shall be prohibited. The investment administrative department shall not examine, approve, ratify or archive the projects under the restricted category. No financial institution shall grant loans for such projects, and no administrative departments of land administration, urban planning, construction, environmental protection, quality inspection, fire prevention, customs, or industry and commerce, etc. shall handle the relevant procedures for such projects. In case of any violation of the provisions to carry out construction based on investment or financing, the relevant entities and persons shall be subject to liabilities. With respect to the existing production capacities under the restricted category, the enterprises shall be allowed to, within a certain period, take measures to transform or upgrade themselves, and the financial institutions shall, in compliance with the credit principles, continue providing supports. The relevant administrative department of the state shall, when required by industrial structure optimisation and upgrading, comply with the principle of selecting the superior and eliminating the inferior and provide classified guidance.

All investments after the effective date of the Industrial Structure Adjustment Provisions in the eliminated category are prohibited. All regions, departments and enterprises concerned shall adopt strong measures to eliminate the prescribed production technology, equipment and products within a prescribed timeframe. For enterprises which fail to do so, the local people’s governments at all levels and the competent authorities shall order suspension or closure in accordance with relevant PRC laws and regulations. If the products of such enterprises are regulated under the production permit system, the competent authorities shall revoke the production permits in accordance with the law. The State Administration for Industry and

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## REGULATORY OVERVIEW

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Commerce (which has been changed to SAMR) shall supervise and urge the enterprises to undergo procedures for modification or cancellation of their registration in accordance with the law. The environmental protection and management authorities shall revoke the discharge licences of such enterprises. If the relevant requirement is not fulfilled, the person with direct responsibilities and the related leadership shall be pursued for liability.

As advised by our PRC Legal Advisers, since our Company's business does not belong to the encouraged category, the restricted category nor the eliminated category, our Company's business shall be listed into the permitted category.

### **Ready-mixed concrete**

Pursuant to the “National Standard for Ready-mixed Concrete” (《預拌混凝土國家標準》(GB/T14902-2012)), issued by AQSIQ and SAC and published by Standards Press of China on 31 December 2012 and effective since 1 September 2013, standards are made for the production and acceptance of ready-mixed concrete.

Pursuant to the “Code for Acceptance of Constructional Quality of Concrete Structures” (《混凝土結構工程施工質量驗收規範》(GB50204-2015)), promulgated by MOHURD and AQSIQ on 31 December 2014 and effective from 1 September 2015, the engineering of industrial, civil and general concrete structures, including cast-in-situ concrete structures and precast concrete structures is regulated.

Pursuant to the “Code for design of concrete structures” (《混凝土結構設計規範》(GB50010-2010)), promulgated by MOHURD and AQSIQ on 18 August 2010 and amended on 22 September 2015 and effective on the same day, the design of concrete structures is regulated.

Pursuant to the “Specification for mix proportion design of ordinary concrete” (《普通混凝土配合比設計規程》(JGJ55-2011)), published by MOHURD on 22 April 2011 and effective since 1 December 2011, mix proportion design of ordinary concrete is regulated. Pursuant to the “Standard for technical requirements and test method of sand and crushed stone (or gravel) for ordinary concrete” (《普通混凝土用砂、石質量及檢驗方法標準》(JGJ52-2006)), issued by Ministry of Construction of the PRC (currently known as MOHURD) on 19 December 2006 and effective since 1 June 2007, standards are made for technical requirements and test method of sand and crushed stone (or gravel) for ordinary concrete.

Pursuant to the “Sampling method for cement” (《水泥取樣方法》(GB/T12573-2008)), issued by AQSIQ and SAC on 30 June 2008 and effective since 1 April 2009, standards are made for sampling method for cement.

Pursuant to the “Standard for evaluation of concrete compressive strength” (《混凝土強度檢驗評定標準》(GB/T50107-2010)), issued by MOHURD and AQSIQ on 31 May 2010 and effective since 1 December 2010, standards are made for evaluation of concrete compressive strength.

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## REGULATORY OVERVIEW

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Pursuant to the “Standard Quality Control of Concrete” (《混凝土質量控制標準》(GB50164-2011)), issued by MOHURD on 2 April 2011 and effective since 1 May 2012, standards are made for the quality control of concrete.

Pursuant to the “Fly ash used for cement and concrete” (《用於水泥和混凝土中的粉煤灰》(GB/T1596-2017)), issued by AQSIQ and SAC on 12 July 2017 and effective since 1 June 2018, standards are made for fly ash used for cement and concrete.

Pursuant to the “Ground granulated blast furnace slag used for cement, mortar and concrete” (《用於水泥、砂漿和混凝土中的粒化高爐礦渣粉》(GB/T18046-2017)), issued by AQSIQ and SAC on 29 December 2017 and effective since 1 November 2018, standards are made for ground granulated blast furnace slag used for cement, mortar and concrete.

Pursuant to the “Expansive agents for concrete” (《混凝土膨脹劑》(GB/T23439-2017)), issued by AQSIQ and SAC on 29 December 2017 and effective since 1 November 2018, standards are made for expansive agents for concrete.

Pursuant to the “Ready-mixed mortar” (《預拌砂漿》(GB/T25181-2019)), issued by AQSIQ and SAC on 30 August 2019 and effective since 1 July 2020, standards are made for ready-mixed mortar.

Pursuant to the “Concrete admixtures” (《混凝土外加劑》(GB8076-2008)), issued by AQSIQ and SAC on 31 December 2008 and effective since 30 December 2009, standards are made for concrete admixtures.

Pursuant to the “Common Portland Cement” (《通用矽酸鹽水泥》(GB175-2007)), issued by AQSIQ and SAC on 9 November 2007 and effective since 1 June 2008, standards are made for common portland cement.

Pursuant to the “Standard for test methods of concrete physical and mechanical properties” (《混凝土物理力學性能試驗方法標準》(GB/T50081-2019)), issued by MOHURD and SAMR on 19 June 2019 and effective since 1 December 2019, standards are made for test methods of concrete physical and mechanical properties.

Pursuant to the “Notice on the Deadline for the Banning of On-site Mixing Concrete in Urban Areas” (《關於限期禁止在城市城區現場攪拌混凝土的通知》)(商改發[2003]341號), promulgated by MOFCOM, the Ministry of Public Security of the PRC, MOHURD and Ministry of Transport of the PRC on 16 October 2003, 124 cities including Beijing, on-site concrete mixing has been banned since 31 December 2003, and cities in other provinces (autonomous regions) have banned on-site concrete mixing since 31 December 2005. Xiamen is one of the 124 cities on the lists.

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## REGULATORY OVERVIEW

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Pursuant to the “Quality Management Standard of Ready-mixed Commercial Concrete in Fujian Province” (《福建省預拌商品混凝土質量管理標準》) (閩建[2012]15號), issued by Fujian Housing and Urban-Rural Construction Department on 5 December 2012 and newly amended on 16 July 2018, a special concrete laboratory is required.

Pursuant to the “Notice on Strengthening the Management of Ready-Mixed Commercial Concrete Industry” (《廈門市建設局關於加強預拌商品混凝土行業管理的通知》) (廈建科[2014]53號), promulgated by Xiamen Construction Bureau on 24 October 2014 and effective on the same day, some specific regulations have been made for the management of ready-mixed commercial concrete enterprises.

### PC components

Pursuant to the “Reinforced concrete segments” (《預製混凝土襯砌管片》) (GB/T22082-2017), issued by AQSIQ and SAC on 29 December 2017 and effective since 1 November 2018, standards are made for reinforced concrete segments.

Pursuant to the “Guiding Opinions of the General Office of the State Council on Vigorously Developing Prefabricated Buildings” (《國務院辦公廳關於大力發展裝配式建築的指導意見》) (國辦發[2016]71號), promulgated by the General Office of State Council on 27 September 2016 and effective on the same day, it proposes to perfect standard and normative system, such as the national standards, the industry standards and the local standards for prefabricated buildings; innovate the architectural design for prefabricated buildings; optimise the production of prefabricated parts and components; improve the standard of construction; implement the collaborative construction of prefabricated building decoration with main structure and mechanical and electrical equipment; encourage the using of green building materials; promote the general contracting business. In principal, the prefabricated buildings should adopt the general contracting mode and the bidding can be carried out according to complex technical projects.

Pursuant to the “Action Plan for the 13th Five-Year Prefabricated Construction” (《「十三五」裝配式建築行動方案》) (建科[2017]77號), promulgated by MOHURD on 23 March 2017 and effective on the same day, the proportion of prefabricated buildings in newly constructed buildings should be more than 15% in the PRC by 2020, among which, such proportion should be more than 20% in major promoting areas, 15% in actively promoting areas and 10% in encouraged promoting areas. By 2020, over 50 prefabricated construction demonstration cities, over 200 prefabricated construction industrial bases and over 500 prefabricated construction demonstration projects will be developed, and over 30 prefabricated construction technology innovation bases will be built.

Pursuant to the “Administrative Measures for Prefabricated Construction Demonstration City” (《裝配式建築示範城市管理辦法》) (建科[2017]77號), promulgated by MOHURD on 23 March 2017 and effective on the same day, to be recognised as a prefabricated construction demonstration city by such administrative measures entails having relatively strong industrial foundation and playing an exemplary role in the development goal, supporting policy,

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## REGULATORY OVERVIEW

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technological standards, project implementation and development mechanism of prefabricated construction during the development of prefabricated construction. The relevant preferential support policies should lean towards such demonstration cities when formulating and implementing.

Pursuant to the “Administrative Measures for Prefabricated Construction Industrial Base” (《裝配式建築產業基地管理辦法》(建科[2017]77號)), promulgated by MOHURD on 23 March 2017 and effective on the same day, “Prefabricated Construction Industrial Base” refers to prefabricated construction related companies which possess definitive development goal, relatively strong industrial foundation, advanced and established techniques, capability in research and development innovation, strong industrial relevancy, and focus on the cultivation and training for prefabricated construction related talents as well as play an exemplary and encouraging role as demonstration. Such companies mainly consist of those engaged in the design, parts and components production, construction, equipment manufacturing, technology research and development for prefabricated construction. Industrial bases are given priority to enjoy relevant supporting policies from MOHURD and relevant housing and urban-rural development departments where they are located. Zhixin Construction Technology was recognised as a prefabricated construction industrial base by MOHURD in September 2020.

## II. THE CONSTRUCTION INDUSTRY

### Qualifications for operations

Pursuant to the “Regulations on the Quality Management of Construction Projects” (《建設工程質量管理條例》), promulgated by State Council on 30 January 2000, amended on 7 October 2017 and 23 April 2019 respectively, and the “Provisions on the Administration of Qualifications of Construction Enterprises” (《建築業企業資質管理規定》), promulgated by the MOHURD on 22 January 2015, revised on 13 September 2016 and 22 December 2018 respectively, every enterprise engaging in the production and sale of concrete, including foreign investment enterprise established in China by foreign investors, shall obtain a qualification certificate of construction enterprise from the construction administration.

Pursuant to the “PRC Construction Law” (《中華人民共和國建築法》) promulgated by the NPC Standing Committee on 1 November 1997, and revised on 22 April 2011 and 23 April 2019 respectively, and “Provisions on the Administration of Qualifications of Construction Enterprises” (《建築業企業資質管理規定》), the “Standards of Qualifications for Construction Enterprises (2014)” (《建築業企業資質標準(2014)》) promulgated by the MOHURD on 6 November 2014 and effective on 1 January 2015 and revised on 14 October 2016, enterprises engaged in the construction of concrete prefabricated components do not need to apply for Qualification Certificate of Construction Enterprise (“QCCE”) anymore, the qualification for professional contracting ready-mixed concrete is not graded anymore, and qualified enterprises may produce concrete of various strength grades and special concrete. The term of validity for the QCCE is five years. Zhixin Construction Material acquired QCCE

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## REGULATORY OVERVIEW

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with certificate No. D335055835 for the ungraded ready-mixed concrete professional contractor issued by Xiamen Municipal Construction Bureau on 23 June 2016, the expiration date of which is 22 June 2021.

Pursuant to the “Opinions on Application for Safety Production License for 8 Specialized Contracting Enterprises, such as Earthwork and Concrete Prefabricated Components” (《住房和城鄉建設部辦公廳關於土石方、混凝土預製構件等8類專業承包企業申領安全生產許可證事宜的意見》(建辦質函[2015]269號)), promulgated by General Office of the MOHURD on 3 April 2015 and effective on the same date, enterprises engaged in the construction of concrete prefabricated components do not need to apply for safety production license of construction enterprises in accordance with the relevant provisions of safety production license management.

Pursuant to the “Unified Standard for Constructional Quality Acceptance of Building Engineering” (《建築工程施工質量驗收統一標準》)(GB50300-2013)), promulgated by the MOHURD on 1 November 2013 and effective on 1 June 2014, general standards on the methods, quality criteria and processes of construction acceptance are made.

Pursuant to “The 13th Five-Year Plan of Construction Industry” (《建築業發展「十三五」規劃》), promulgated by the MOHURD on 26 April 2017, the MOHURD aimed at upgrading and optimising the construction industry with various measures such as reducing the burden on the construction enterprises and offering financial support to major strategic projects.

### **Production safety**

According to the “Production Safety Law of the People’s Republic of China” (《中華人民共和國安全生產法》) promulgated by the NPC Standing Committee on 29 June 2002, revised on 27 August 2009 and 31 August 2014 respectively, production entities shall fulfil the production safety requirements under the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Entities which fail to meet the production safety requirement may not engage in any production activities. Enterprises shall organise education and training on production safety for its staff. They shall also provide their staff with labour protective articles which meet the national or industrial standards and supervise and guide their staff to wear and use such articles according to the prescribed use.

### **Bid and tender law**

Pursuant to the “Tendering and Bidding Law of the People’s Republic of China” (《中華人民共和國招標投標法》) promulgated by the NPC Standing Committee on 30 August 1999 and revised on 27 December 2017 and effective from 28 December 2017, bids shall be invited for the following project construction items undertaken within the PRC, including surveying, design, construction, supervision and management of the project, as well as the purchase of important equipment and materials for the project construction: (i) large scale infrastructure or public utility projects and other projects relating to the public interest of society or public

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## REGULATORY OVERVIEW

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security; (ii) projects wholly or partly utilising State-owned capital or State funds; and (iii) projects utilising loan or aid funds provided by international organisations or foreign governments.

### III. FOREIGN INVESTMENT

#### Negative list for foreign investment access

Pursuant to the “Special Administrative Measures (Negative List) (Edition 2020) for Foreign Investment Access” (《外商投資准入特別管理措施(負面清單) (2020年版)》), promulgated by the NDRC and the MOFCOM on 23 June 2020 and effective on 23 July 2020, foreign investors may not invest in areas where foreign investors are prohibited from investment as provided by the Negative List for Foreign Investment Access; a foreign investment permission must be obtained prior to investing in other areas that are not prohibited in the Negative List for Foreign Investment Access; when investment is made in areas for which there are equity requirements, no foreign-invested partnership may be established. Our PRC Legal Advisers are of the view that our Group’s business is not specified in the Negative List for Foreign Investment Access.

### IV. REGULATIONS IN RELATION TO FOREIGN EXCHANGE CONTROLS

#### Foreign exchange

The principal regulation governing foreign exchange in the PRC is “the Foreign Exchange Administration Rules of the PRC” (《中華人民共和國外匯管理條例》) which was issued by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008. Under these rules, the current account incomes of foreign exchanges can be retained or sold to financial authorities which manage exchange settlement and sale and purchase of foreign exchange. However, approval from the SAFE is required for the relevant capital account transactions of the foreign invested enterprises, such as the capital increase and decrease. Foreign invested enterprises may purchase foreign exchange without the approval of SAFE for trade and service related foreign exchange transactions by providing documents evidencing such transactions. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from SAFE.

#### Dividend distribution

The principal regulation governing distribution of dividends of foreign holding companies is the “Company Law of the PRC” (《中華人民共和國公司法》), promulgated by the NPC Standing Committee on 29 December 1993, subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. Under the law, foreign investment enterprises in China shall contribute 10% of the profits into their

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## REGULATORY OVERVIEW

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statutory surplus reserve upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital.

### V. ENVIRONMENTAL PROTECTION

#### General rules

In accordance with the “PRC Environmental Protection Law” (《中華人民共和國環境保護法》), promulgated by the NPC Standing Committee on 26 December 1989 and amended on 24 April 2014 and effective on 1 January 2015, the environmental protection department of the State Council shall formulate national environmental quality standards. People’s governments of provinces, autonomous regions and centrally-administered municipalities may formulate local environmental quality standards for projects which are not governed by the national environmental quality standards; for projects which are governed by the national environmental quality standards, stricter local environmental quality standards which are stricter than the national environmental quality standards may be formulated by the PRC Government. Local environmental quality standards shall be filed with the environmental protection department of the State Council for record.

Enterprises discharge any pollutants in their daily operations and manufacture shall observe the national discharge standards which are regulated by the Ministry of Environmental Protection of the PRC, which has established various discharge standards, as amended and revised from time to time, with regards to discharge of water pollutants, solid pollutants, gas exhaust, noises and other pollutants.

#### Environmental impact assessment

According to the “Administrative Regulations for the 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, revised on 16 July 2017 and effective on 1 October 2017, and “Environmental Impact Assessment Law of the People’s Republic of China” (《中華人民共和國環境影響評價法》), promulgated by the NPC Standing Committee on 28 October 2002 and revised on 2 July 2016 and 29 December 2018, enterprises are required to engage institutions with corresponding environmental impact assessment qualifications to provide environmental impact assessment services and reports for submission to the competent environmental protection approval administration. The State shall implement classified administration of environmental impact assessment for construction projects in accordance with the degree of environmental impacts of construction projects. The construction unit shall produce environmental impact reports and environmental impact statements or complete environmental impact registration forms (hereinafter referred to as “**Environmental Impact Assessment Documents**”).



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## REGULATORY OVERVIEW

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For a construction project which is required to prepare an environmental impact report or environmental impact statement pursuant to the law, construction work may only be commenced after such an assessment is submitted to and approved by the environmental protection administrative authority. The construction of pollution prevention and control facilities in a construction project must be designed and commenced simultaneously with the main facility. Pollution prevention and control facilities shall not be put to use until the approval, upon inspection, by the original environmental protection authority which had approved the environmental impact assessment documents.

An enterprise which fails to submit assessment documents on the environmental impact of a construction project in accordance with the law or which commences construction work without permission will be ordered to cease construction.

### **Pollutant discharge**

According to the “Laws of the People’s Republic of China on the Prevention and Control of Water Pollution” (《中華人民共和國水污染防治法》), promulgated by the NPC Standing Committee on 11 May 1984, subsequently revised on 15 May 1996, 28 February 2008 and 27 June 2017, environmental impact assessment shall be conducted for any new construction, reconstruction and expansion of projects or other installations on water which directly or indirectly discharge pollutants into the water according to law. Enterprises and institutions that discharge pollutants directly or indirectly into the water shall obtain the pollutants discharge permits.

According to the “Law of the People’s Republic of China on Prevention and Control of Environmental Pollution Caused by Solid Waste” (《中華人民共和國固體廢物污染環境防治法》) promulgated by the NPC Standing Committee on 30 October 1995, subsequently revised on 29 December 2004, 29 June 2013, 24 April 2015, 7 November 2016 and 29 April 2020, entities that generate industrial solid wastes shall obtain a pollutant discharge permit and provide the relevant information to the local environmental protection administrative authority, including the types, output volume, destination, storage and disposal of the industrial solid wastes.

According to the “Law of the People’s Republic of China on Prevention and Control of Atmospheric Pollution” (《中華人民共和國大氣污染防治法》), promulgated by the NPC Standing Committee on 5 September 1987, last amended on 26 October 2018 and with effect on the same day, new construction, expansion and reconstruction projects which discharge pollutants into the air shall be subject to the relevant environmental protection regulations of the PRC.

Under the “Law on Prevention and Control of Environmental Noise Pollution of the People’s Republic of China” (《中華人民共和國環境噪聲污染防治法》), promulgated by the NPC Standing Committee on 29 October 1996, amended on 29 December 2018 and with effect on the same day, industrial enterprises producing environmental noise pollution as a result of using their fixed facilities in industrial production must report to the local

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## REGULATORY OVERVIEW

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environmental protection administrative department in charge in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities. They should also provide technical information about how to prevent and control noise pollution. Units producing environmental noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

### VI. TAXATION

#### Enterprise income tax

Pursuant to the “PRC Tax Law” (《中華人民共和國企業所得稅法》), promulgated by the NPC on 16 March 2007, revised on 24 February 2017 and 29 December 2018, resident enterprises are subject to enterprise income tax at an applicable rate of 25% for all incomes generated within and outside the PRC, while non-resident enterprises which have established institutions or places of business in the PRC are subject to enterprise income tax for all incomes generated from such institutions or places of business in the PRC and all incomes generated outside the PRC which are actually related to the institutions or places of business established in the PRC where the enterprise income tax rate is 25%.

Non-resident enterprises which have not established any institutions or places of business in the PRC, or which have established institutions or places of business in the PRC but there are no actual relationship between the incomes generated in the PRC and such institutions or places of business are only subject to enterprise income tax for all incomes generated in the PRC at an applicable rate of 20%. However, according to the “Implementation Regulations of the PRC Enterprise Income Tax Law” (《中華人民共和國企業所得稅法實施條例》), promulgated by the State Council on 6 December 2007 and effective on 1 January 2008, revised on 23 April 2019, the aforesaid income of non-resident enterprise shall be subject to enterprise income tax at a reduced tax rate of 10%.

According to the “Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income” (《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》), promulgated by SAT on 21 August 2006, for a Hong Kong enterprise directly holds not less than 25% of the shares of a PRC enterprise, the dividend paid to the Hong Kong enterprise by the PRC enterprise shall be subject to a withholding tax rate of 5%. According to the “Notice on the Issues Concerning the Application of the Dividends Clauses of Tax Treaties” (《關於執行稅收協定股息條款有關問題的通知》) issued by SAT on 20 February 2009, the direct shareholding proportion of such corporate recipients of dividends distributed by the PRC enterprises must satisfy the minimum requirement under the tax treaty at all times during the 12 consecutive months preceding the receipt of the dividends.

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## REGULATORY OVERVIEW

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### VAT

Pursuant to the “Provisional Regulations of the People’s Republic of China on Value-added Tax” (《中華人民共和國增值稅暫行條例》) (“**VAT Provisions**”), promulgated by the State Council on 13 December 1993 and last revised on 19 November 2017 and effective on the same day, organisations and individuals engaging in sale of goods or processing, repair and assembly services (hereinafter referred to as “**labour services**”), sales of services, intangible assets, immovables and importation of goods in the PRC shall be taxpayers of VAT, general VAT taxpayers engaging in sale of goods, services, lease of tangible movables or importation of goods other than those specifically listed in the VAT Law shall pay VAT at a tax rate of 17% pursuant to the VAT Provisions. According to the “Notice of Adjusting Value-added Tax Rates” (《財政部、稅務總局關於調整增值稅稅率的通知》), promulgated by the MOF and the SAT on 4 April 2018 and became effective on 1 May 2018, the tax rates of 17% and 11% applicable to any taxpayer who have VAT taxable sales activities shall be adjusted to 16% and 10% respectively. According to the “Announcement on Policies for Deepening the VAT Reform”(《關於深化增值稅改革有關政策的公告》) promulgated by the MOF, SAT and the General Administration of Customs on 20 March 2019 and became effective on 1 April 2019, for general VAT payers’ sales activities or imports that are subject to VAT at an existing applicable rate of 16% and 10%, the applicable VAT rate is adjusted to 13% and 9% respectively. Therefore, during the Track Record Period and up to the Latest Practicable Date, for the enterprise selling the PC components, the tax rate of VAT shall be 17% before 1 May 2018, 16% before 1 April 2019 and 13% from 1 April 2019 respectively, and for the enterprise engaging in sale of transportation, the tax rate of VAT shall be 11% before 1 May 2018, 10% before 1 April 2019 and 9% from 1 April 2019 respectively.

Pursuant to “Notice of the Ministry of Finance and the State Administration of Taxation on Value-Added Tax Policies Concerning the Application of Low Tax Rates and Simplified Taxation Method for Certain Goods” (《財政部、國家稅務總局關於部分貨物適用增值稅低稅率和簡易辦法徵收增值稅政策的通知》), promulgated by MOF and SAT on 19 January 2009 and effective on 1 January 2009, and then revised on 25 May 2012 and 13 June 2014 with effect on 1 July 2014, and “Notice of the Ministry of Finance and the State Administration of Taxation on Simplifying Value-added Tax Rate Policies” (《關於簡併增值稅徵收率政策的通知》), promulgated by MOF and SAT on 13 June 2014 and effective on 1 July 2014, if general taxpayers sell concrete commodities (solely include cement concrete made of cement as the raw material), VAT shall be paid and calculated at the rate of 3% under the simplified method.

### Environmental protection tax

Pursuant to the “Environmental Protection Tax Law of the People’s Republic of China” (《中華人民共和國環境保護稅法》), promulgated by the NPC Standing Committee on 25 December 2016 and effective from 1 January 2018 and then revised on 26 October 2018, public institutions and other producers/operators that discharge taxable pollutants directly to the environment within the territorial areas of the PRC and other sea areas under the

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## REGULATORY OVERVIEW

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jurisdiction of the PRC are the taxpayers of environmental protection tax and shall pay such tax in accordance with the provisions of this law. The people's government of a province, autonomous region or centrally-administered municipality may propose the determination of and adjustment to the applicable tax amounts of the taxable air pollutants and water pollutants within the range of taxable amounts specified in the table of items and amounts of environmental protection tax annexed thereto by giving full consideration to local environmental bearing capacity, status quo of discharge of pollutants as well as the requirements of the socioeconomic development objectives, subject to approval by the standing committee of the people's congress at the same level and filing with the NPC Standing Committee and the State Council. Environmental protection tax shall be collected in accordance with the provisions of this law and the waste discharge fee shall no longer be collected from the effective date of this law.

### **Urban maintenance and construction tax**

Under the "Provisional Regulations of the PRC on Urban Maintenance and Construction Tax" (《中華人民共和國城市維護建設稅暫行條例》) enacted by the State Council on 8 February 1985, implemented since 8 February 1985 and as amended on 8 January 2011, any taxpayer, whether an entity or individual, of product tax, VAT or business tax shall be required to pay urban maintenance and construction tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

### **Education surcharges**

Pursuant to the "Provisional Regulations on the Collection of Education Surcharges" (《徵收教育費附加的暫行規定》), promulgated by the State Council on 28 April 1986, last revised on 8 January 2011 and effective on the same day, the computation and collection of education surcharges are based on the amount of value-added tax, business tax and consumption tax actually paid by entities and individuals. The rate of education surcharges is 3%, which shall be paid together with value-added tax, business tax or consumption tax respectively. Unless otherwise prescribed by the State Council, no region or authority may increase or reduce the education surcharge rate without authorisation.

## **VII. LABOUR LAW AND REGULATIONS**

Enterprises in China are mainly subject to the following PRC labour laws and regulations: "Labour Law of the PRC" (《中華人民共和國勞動法》), "PRC Labour Contracts Law" (《中華人民共和國勞動合同法》), the "Social Insurance Law of the PRC" (《中華人民共和國社會保險法》), the "Regulation of Insurance for Work-Related Injury" (《工傷保險條例》), the "Regulations on Unemployment Insurance" (《失業保險條例》), the "Provisional Measures on Insurance for Maternity of Employees" (《企業職工生育保險試行辦法》), the "Interim Regulation on the Collection and Payment of Social Insurance Premiums" (《社會保

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## REGULATORY OVERVIEW

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險費徵繳暫行條例)), the “Administrative Regulation on Housing Fund” (《住房公積金管理條例》) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time.

The principal regulations governing the employment contract is the PRC Labour Contracts Law, which was promulgated by the NPC Standing Committee on 29 June 2007 and amended on 28 December 2012 and came into effect on 1 July 2013. Pursuant to the PRC Labour Contracts Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written employment contract shall be concluded, or employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees’ rights and interests.

As required under the Social Insurance Law of the PRC, the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees and the Administrative Regulation on Housing Fund, enterprises in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance, medical insurance and housing accumulation fund.

According to “Collection Measures on the Housing Provident Fund of Xiamen Municipality” (《廈門市住房公積金歸集辦法》), which was promulgated by Xiamen Housing Provident Fund Management Commission on 25 September 2009 and became effective from 1 October 2009, state organs, state-owned enterprises, collective enterprises in cities and towns, foreign-invested enterprises, institutions, private enterprises in cities and towns and other enterprises in cities and towns, private non-enterprise units and associations, and their urban employees, within the territory of Xiamen, shall pay housing provident fund contributions.

### VIII. REGULATIONS RELATING TO INTELLECTUAL PROPERTY

#### **Domain name**

Pursuant to the “Measures for the Administration of Internet Domain Names” (《互聯網域名管理辦法》), promulgated on 24 August 2017 and with effect from 1 November 2017, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the internet protocol (IP) address of that computer. The principle of “first come, first serve” is followed for the domain name registration service. After completing the domain name registration, the applicants become the holder of the domain name registered by him/it.

#### **Patent**

The NPC Standing Committee adopted the “Patent Law” (《中華人民共和國專利法》) in 1984, as most recently amended in 2008. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted to scientific discoveries, rules and methods for intellectual activities, methods used to

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## REGULATORY OVERVIEW

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diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. A patent is valid for a 20-year term in the case of an invention and a 10-year term in the case of a utility model or design, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights.

### **Trademarks**

Both “Trademark Law of the PRC” (《中華人民共和國商標法》) promulgated by the NPC Standing Committee in 1982 and amended respectively on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019, and became with effective on 1 November 2019 and the “Regulation on Implementation of Trademark Law of the PRC” (《中華人民共和國商標法實施條例》) promulgated by the State Council on 3 August 2002, amended on 29 April 2014 and with effective on 1 May 2014, provide protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

A registered trademark is valid for 10 years and is renewable every 10 years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within 12 months prior to the expiration of the term. Where renewal formalities are not completed upon expiry of the validity period, a six-month extension may be allowed, during which renewal formalities are still not commenced, the registered trademark shall be cancelled.

## **IX. PROVISIONS ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS**

In light of the M&A Rules adopted on 8 August 2006, became effective on 8 September 2006 and amended on 22 June 2009, “mergers and acquisitions of domestic enterprises by foreign investors” refers to:

1. equity merger and acquisition: means a foreign investor converts a non-foreign invested enterprise (domestic company) to a foreign invested enterprise by purchasing the equity interest from the shareholder of such domestic company or the increased capital of the domestic company; or
2. a foreign investor establishes a foreign invested enterprise to purchase the assets from a domestic enterprise by agreement and operates the assets therefrom; or
3. assets merger and acquisition: means a foreign investor purchases the assets from a domestic enterprise by agreement and uses these assets to establish a foreign invested enterprise for the purpose of operation of such assets.

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## REGULATORY OVERVIEW

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Mergers and acquisitions of domestic enterprises by foreign investors shall be subject to the approval of the MOFCOM or its delegates at provincial level. In the event that any domestic company, enterprise or natural person merges or acquires a domestic company that has affiliated relationship with it through an overseas company legally established or controlled by such domestic company, enterprise or natural person, the merger and acquisition applications shall be submitted to the MOFCOM for approval and any circumvention on the requirement including domestic re-investment of a foreign invested enterprise is not allowed.

According to the “Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises” (《外商投資企業設立及變更備案管理暫行辦法》) promulgated by MOFCOM on 8 October 2016 and revised on 30 June 2018, the establishment and change of foreign-invested enterprises that do not involve the implementation of special management measures for foreign investors to invest into China shall be filed with the relevant commerce authorities, which has been repealed by the “Measures on Foreign Investment Enterprises Information Reporting” (《外商投資信息報告辦法》) as of 1 January 2020. Pursuant to the “Measures on Foreign Investment Enterprises Information Reporting” promulgated by the MOFCOM and the SAMR on 30 December 2019 and came into effect on 1 January 2020, where a foreign investor directly or indirectly conducts investment activities within China, the foreign investor or foreign-invested enterprise shall submit investment information to the competent authorities of commerce in accordance with the “Measures on Foreign Investment Enterprises Information Reporting”.

### X. CIRCULAR 37 AND CIRCULAR 13

On 4 July 2014, the SAFE promulgated the Circular 37, according to which, (a) “SPV” is defined as “offshore enterprise directly established or indirectly controlled by domestic residents (including domestic institution and individual resident) with their legally owned assets or equity of domestic enterprises, or legally owned offshore assets or equity, for the purpose of offshore investment and financing; (b) a domestic resident must register with the SAFE before he or she contributes assets or equity interests to SPV; (c) following the initial registration, any major changes such as change in the overseas SPV’s domestic resident shareholders, names of the overseas SPV and terms of operation or any increase or reduction of the overseas SPV, registered capital, share transfer or swap, merger or division, or similar development, shall be reported to the SAFE for registration in time, and failing to comply with the registration procedures as set out in Circular 37 may result in penalties.

On 13 February 2015, the SAFE promulgated the “Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment” (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (“**Circular 13**”), according to which, the banks will review and carry out foreign exchange registration under domestic direct investment as well as foreign exchange registration under overseas direct investment (collectively known as direct investment foreign exchange registration) directly, and the SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.