TAXATION OF OUR COMPANY

PRC Taxation

PRC Deed Tax

Under the Provisional Regulations of the PRC on the Deed Tax《中華人民共和國契稅暫行條例》which took effect on October 1, 1997, deed tax applies to entities and individuals that accept the transfer of land use rights and the ownership of houses within the territory of the PRC.

The transfer of land use rights and the ownership of houses refer to the following acts:

- Assignment of the right to use state-owned land;
- Transfer of land use rights, including the transfer by means of sale, gift and exchange, excluding the transfer of the right contract for the management of rural collective land;
- Purchase and sale of houses;
- Gift of houses; and
- Exchange of houses.

The transfer of land use rights and the ownership of houses by the means of the following methods are also deemed to be governed by the above regulation, as stipulated by the Implementation Rule of Provisional Regulation on Deed Tax《中華人民共和國契稅暫行條例細則》:

- Using land use rights and ownership of a house as investment;
- Setting off debt with land use rights and the ownership of house;
- Obtaining land use rights and the ownership of a house as a prize; and
- Obtaining land use rights and the ownership of a house by the way of purchasing in advance.

The rate of deed tax will, within the range of 3-5%, be determined by the PRC government agencies of provincial, autonomous region and municipal level in light of the actual conditions of the underlying properties respective areas and shall be reported to the Ministry of Finance and the State Administration of Taxation.

The deed tax will be reduced or exempted under the following circumstances:

- For the acceptance of land and houses by state agencies, institutions, social organizations and military units for office, teaching, medical service, scientific research and military facilities, the deed tax will be exempted;
- For the initial purchase of state-owned residential houses by urban and township workers and staff members according to the provisions of relevant laws and regulations, the deed tax will be exempted;
- For the purchase of residential houses in replacement of houses damaged or destroyed due to force majeure, the tax will, upon approval, be reduced or exempted according to the circumstances; and
- Any other types of reduction or exemption provided by the Ministry of Finance.

Reduction or exemption of deed tax will not be applicable if the relevant land or house and the change of use is no longer within the above mentioned scope, and an amount of tax equivalent to the tax reduction or exemption should be repaid.

On September 29, 2010, the Ministry of Finance, the Ministry of Construction and the SAT promulgated the Notice on the Adjustment of the Deed Tax and Personal Income Tax Preferential Policies in Real Estate Transactions《關於調整房地產交易環節契稅個人所得稅優惠政策的通知》, which provides that deed tax rate is reduced to 1% for first-time individual buyer who purchases an ordinary residential property with a GFA of less than 90 sq.m. as the family's sole property.

Income Tax

According to the PRC EIT Law of the People's Republic of China《中華人民共和國企業所得稅法》enacted by the National People's Congress on March 16, 2007 and relevant implementation rules enacted by the State Council on December 6, 2007, both in effect from January 1, 2008 onwards, a uniform income tax rate of 25% will be applied towards PRC enterprises, foreign investment enterprises and foreign enterprises which have set up production and operation facilities in the PRC. The PRC EIT Law also permits enterprises to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules, under which enterprises that were subject to an EIT rate of 15% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new EIT rate within five years after the effective date of the PRC EIT Law, that is 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and the new statutory EIT rate of 25% from 2012 onwards. In addition, under the phase-out rules, enterprises established before the promulgation date of the PRC EIT Law and which were granted tax holidays (such as a two-year exemption and three years of reduction by 50% and a five-year exemptions and five years of reduction by 50%) under the then effective tax laws or regulations may continue to enjoy their tax holidays until their expiration.

Under the implementation rules of PRC EIT Law, in effect from January 1, 2008, a withholding tax of 10% will be applicable to dividends paid by foreign-invested enterprises to foreign investors, unless otherwise stipulated in tax treaties concluded between Chinese government and other jurisdictions. However, due to Arrangement between the PRC and 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》on August 21, 2006, a company incorporated in Hong Kong will be subject to a withholding tax at a rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% interest or more in the PRC company. In addition, the PRC State Administration of Taxation promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits.

According to the Implementation Rule of the PRC EIT Law, if an enterprise incorporated outside the PRC has its "de facto management body" located within the PRC, such an enterprise may be recognized as a PRC tax resident enterprise and subject to EIT at the rate of 25%. According to the PRC EIT Law, dividends received by a qualified PRC tax resident enterprise from another qualified PRC tax resident enterprises are exempted from EIT.

On March 6, 2009, the SAT promulgated the Measures for the Treatment of Enterprise Income Tax on Real Estate Development and Operation Businesses《房地產開發經營業務企業所得稅處理辦法》, which regulates the revenue, cost of sales, fees deduction, accounting of costs and tax treatment of specific matters of enterprises engaging in the real estate business in the PRC in relation to the imposition of corporate income tax.

Business Tax

Pursuant to the Provisional Regulations of the People's Republic of China on Business Tax《中華人民共和國營業稅暫行條例》amended by the State Council on November 10, 2008 and effective as of January 1, 2009 and its Detailed Implementation Rules on the Provisional Regulations of the People's Republic of China on Business Tax《中華人民共和國營業稅暫行條例實施細則》issued by the Ministry of Finance on December 15, 2008 and effective as of January 1, 2009 the tax rate on transfers of immovable properties, their superstructures and attachments is 5%.

On January 27, 2011, the Ministry of Finance and the State Administration of Taxation issued the Notice on Adjusting the Business Tax Policy on Transfers of Residential Properties by Individuals《關於調整個人住房轉讓營業稅政策的通知》to discourage speculative activities in the secondary property market and control soaring housing prices. For example, effective from January 28, 2011:

- transfers of residential properties by individuals who have held them for less than five years are subject to a business tax calculated on a gross basis;
- transfers of non-ordinary residential properties by individuals who have held them for five years or more are subject to a business tax calculated on a net basis; and
- transfers of ordinary residential properties by individuals who have held them for five years or more are exempted from the business tax.

Land Appreciation Tax

Under the Provisional Regulations on Land Appreciation Tax of the PRC《中華人民共和國土地增值稅暫行條例》promulgated by the State Council on December 13, 1993 and its implementation rules, land appreciation tax or LAT, applies to both domestic and foreign investors, irrespective of whether they are corporate entities or individuals. LAT is payable on the appreciation in value representing the balance of the proceeds received on sales, after deducting various prescribed items. LAT is charged at progressive rates ranging from 30% to 60%. Apart from the aforementioned deductions, property developers enjoy an additional deduction, which is equal to 20% of the payment made for acquisition of land use rights and the costs of land development and the construction of new buildings or related facilities. An exemption from payment of LAT may be available if the taxpayer constructs ordinary residential apartments and the appreciation amount does not exceed 20% of the sum of deductions allowed under PRC law. If, however, the appreciation amount exceeds 20% of the sum of allowable deductions, such an exemption is not available and the taxpayer will be liable to LAT on the full appreciation amount, after taking account of the allowable deductions. The allowable deductions include the following items:

- Payment made to acquire land use rights;
- Costs and expenses related to land development and the construction of the properties;
- Construction costs and charges in the case of newly constructed buildings and facilities or assessed value in the case of old buildings and structures;
- Taxes in connection with the transfer of real estate; and
- Other items stipulated by the Ministry of Finance (including 20% deduction of the first two items mentioned above in relation to property development).

LAT is charged at progressive rates ranging from 30% to 60% of the appreciation value (i.e., the balance as described above).

Appreciation value	LAT rates (%)
For the portion	
Not exceeding 50% of allowable deductions	30
Over 50% but not more than 100% of allowable deductions	40
Over 100% but not more than 200% of allowable deductions	50
Over 200% of allowable deductions	60

An exemption from payment of LAT may be available if the taxpayer constructs ordinary standard residential apartments and the appreciation amount does not exceed 20% of the sum of deductions allowed under PRC law.

According to the implementing rules of Provisional Regulations on Land Appreciation Tax of the PRC, a provision of LAT may be made before the completions of construction of the tax payer transfers the proceeds of pre-sale. The provision rate may be determined by Local government subject to the minimum requirement set forth by the State Administration of Taxation.

Urban Land-use Tax

Pursuant to the Provisional Regulations of the People's Republic of China Governing Land-Use Tax in Cities and Towns《中華人民共和國城鎮土地使用稅暫行條例》enacted by the State Council on September 27, 1988 and effective as of November 1, 1988, land-use taxes in respect of urban land is to be levied according to the area of relevant land. The annual tax shall be between RMB0.2 and RMB10 per square meter of urban land. According to the Approval on Land-Use Tax Exemption of Foreign Investment Enterprises《關於外商投資企業征免土地使用稅問題的批復》issued by the State Administration of Taxation on March 27, 1997, land-use fees instead of land-use taxes were to be collected from foreign-invested enterprises. However, the Provisional Regulations of the People's Republic of China Governing Land-Use Tax in Cities and Towns was revised by the State Council on December 31, 2006. As of January 1, 2007, land-use taxes are to be collected from foreign-invested enterprise. The annual tax is between RMB0.6 and RMB30.0 per square meter of urban land. On June 1, 2007, the State Administration of Taxation promulgated the Approval on Levy of Urban Land-Use Tax of Foreign Investment Enterprises and Foreign Enterprise《關於外商投資企業和外國企業徵收城鎮土地使用稅問題的批復》and restated the above points.

Real Estate Tax

Before January 1, 2009, there are two parallel tax systems in China for enterprises engaged in real estate development and investment in China. Such tax applicable for domestic enterprises, organizations and individuals is real estate tax which is calculated on the remaining original book value of the real estate after 10% to 30% deduction of the original book value depending on where the real estate is located, at a rate of 1.2%, or on the rental income derived by the real estate at a rate of 12% according to the PRC Provisional Rules on Real Estate Tax《中華人民共和國房產稅暫行條例》promulgated by the State Council on September 15, 1986. While foreign invested enterprises, foreign enterprises and foreign individuals are required to pay urban real estate tax on land and buildings owned by them in the urban areas of China. According to the PRC Provisional Rules on Urban Real Estate Tax《中華人民共和國城市房地產稅暫行條例》promulgated by the State Council on August 8, 1951, the urban real estate tax is charged at a rate of 1.5% annually based on standard prices for property or 15% annually based on rental income.

By issuance of PRC State Council Order 546《中華人民共和國國務院令 2008第 546號》on December 31, 2008, the State Council unifies the two parallel real estate tax systems by abolishing the urban real estate tax. Starting from January 1, 2009, all enterprises, organizations and individuals that own or use real estate in China shall subject to real estate tax by using the calculation method as

mentioned in the PRC Provisional Rules on Real Estate Tax《中華人民共和國房產稅暫行條例》promulgated by the State Council on September 15, 1986.

Stamp duty

Under the Provisional Regulations on Stamp Duty of the PRC《中華人民共和國印花稅暫行條例》promulgated by the State Council on August 6, 1988, effective on October 1, 1988 and revised on January 8, 2011, for property rights transfer instruments, including those in respect of property ownership transfer, the rate of stamp duty shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including Building Ownership Certificates and Land Use Rights Certificates, stamp duty shall be levied on an item basis of RMB5 per item.

Urban maintenance and construction tax and Education surcharge

Under the Provisional Regulations on Urban Maintenance and Construction Tax of the PRC《中華人民共和國城市維護建設稅暫行條例》promulgated by the State Council on February 8, 1985, any taxpayer, whether an entity or individual, of product tax, value-added tax 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 and a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

Under the Provisional Provisions on Imposition of Education Surcharge"《徵收教育費附加的暫行規定》promulgated by the State Council on April 28,1986 and revised on June 7, 1990 and August 20, 2005, a taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as stipulated under the Notice of the State Council on Raising Funds for Schools in Rural Areas《關於籌措農村學校辦學經費的通知》.

FOREIGN CURRENCY EXCHANGE

Prior to December 31, 1993, a quota system was used for the management of foreign currency. Any enterprise that used foreign currency in the normal course of its operations was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the Bank of China or other designated banks. Such conversion had to be effected at the official rate set up by SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for and supply of the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap centre had to obtain an advanced approval from SAFE.

On December 28, 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System《中國人民銀行關於進一步改革外匯管理體制的公告》, effective on January 1, 1994. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the settlement and payment system of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On June 20, 1996, the PBOC promulgated the Regulations for the Administration of the Settlement, Sale and Payment of Foreign Exchange《結匯、售匯及付匯管理規定》, which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

The principal regulation governing foreign currency exchange in the PRC is the Regulations for the Control of Foreign Exchange, or the Foreign Exchange Regulations of the People's Republic of China《中華人民共和國外匯管理條例》, promulgated by the State Council in January 1996, as amended in January 1997 and August 2005. Under these regulations, Renminbi are freely convertible for

payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but are not freely convertible for capital expenditure such as direct investment, loans or investments in securities outside the PRC unless the approval of SAFE is obtained in advance.

Under the Foreign Exchange Regulations, foreign-invested enterprises in the PRC may purchase foreign currency for trade and service-related foreign exchange transactions without the approval of the State Administration of Foreign Exchange by providing commercial documents evidencing these transactions. They may also remit foreign currency (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign-invested enterprises to purchase and remit foreign currencies in the future. In addition, foreign exchange transactions involving direct investment, loans and investments in securities outside the PRC are subject to limitations and require approvals from SAFE.

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles 《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》, or SAFE Circular No. 75, issued on October 21, 2005, (i) a PRC resident is required to register with the local branch of SAFE before he or she establishes or controls an overseas special purpose vehicle, or overseas SPV, for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident transfers assets of or equity interests in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing assets or equity interests into an overseas SPV, such a PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material capital change event outside of China, such as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. Afterwards, SAFE issued guidances to its local branches with respect to the procedures for SAFE registration, which strengthens the supervision on registration pursuant to SAFE Circular No. 75 and imposes obligations on onshore subsidiaries of the overseas SPVs to coordinate with and supervise the relevant PRC residents to complete the registration.

Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary's foreign exchange activities and impact its ability to distribute dividends to the overseas SPV. The failure may also result in such penalties as being ordered to remit the foreign exchange illegally paid out of China back into China, as well as the imposition of fines up to more than 30% but not more than such amount of foreign exchange illegally paid out.

On July 11, 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued the Opinions on Regulating the Entry and Administration of Foreign Investment into the Real Estate Market《關於規範房地產市場外資准入和管理的意見》(the "**171 document**"). The 171 document provides that: (i) foreign organizations and individuals who have established FIEs are allowed to invest and purchase non-self-resided real estate in China; branches or representative offices of foreign organizations established in China and foreign individuals who work or study in China for over a year are eligible to purchase commodity properties which match their real needs for self-utilization or self-residence under their real names; (ii) the registered capital of foreign-invested real estate corporations with total investments of more than US$10 million shall be no less than 50% of its total investment; (iii) foreign-invested real estate corporates can apply for the formal FIE approval certificate and business license only after they have paid back all the land premium and obtained the State-owned land use rights certificate; (iv) foreign investors shall pay off all the transfer price in a lump sum with their own funds if they acquire Chinese domestic real estate corporations; (v) no offshore or Chinese domestic loan is allowed and the foreign exchange administration shall not approve the conversion of foreign loans into RMB if the foreign-invested real estate corporations have not paid their registered capital in full, or have not obtained the State-owned land use rights certificate, or their internal fund for a development project is less than 35% of the total investment; and (vi) by no means can Chinese

or foreign investors make any commitment in any documents to guarantee a fixed return or fixed revenue in disguised form for any party in the contract.

In accordance with the 171 document, MOFCOM and SAFE jointly issued a Notice on Further Strengthening and Regulating the Approval and Administration regarding Foreign Direct Investment in the Real Estate Industry《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》(**"No. 50 Notice"**) on May 23, 2007. Under the Notice, local commercial authorities should reinforce the approval and supervision process over foreign invested real estate enterprises, and strictly control foreign fund from investing in high-end real estate development projects. For foreign-invested company intending to engage in the property development business, the land use right should be obtained, or at least has entered into pre-contract purchase agreement with the relevant land administrative authorities, land developers, or the owners of the house or other constructions, otherwise the proposed foreign-invested real estate company will not be approved by the authorities. For existing foreign-invested company who intends to expand its operations in its business operation or company who intends to engage in the operation or development of the new real estate project, they should undertake relevant procedures with the approval authority.

No. 50 Notice strictly controls the acquisition or merger of domestic real estate enterprises by means of return investment (includes the same effective controller). It also prohibits Chinese or foreign investors in real estate joint ventures to reach any terms that aim to achieve a fixed return for either party. Once the local authority has approved the establishment of a foreign-invested real estate enterprise, it should immediately file such approval with the MOFCOM.

The local SAFE administrative authority and designated foreign exchange bank will not conduct foreign exchange purchase and settlement process for foreign-invested real estate company who fails to satisfy the MOFCOM for filing requirement or to pass the joint annual examination of foreign-invested enterprises.

On July 10, 2007, the General Department of SAFE issued the Notice on Issuing the List of the First Batch of Foreign-invested Real Estate Projects Having Passed the Procedures for Filing with the Ministry of Commerce 《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》(the "**No. 130 Rule**"). The No. 130 Rule included the list of the first batch of foreign-funded real estate projects that passed MOFCOM's filing procedures. According to No. 130 Rule, registration regarding the establishment of foreign-invested real estate enterprises shall be made with MOFCOM. However, such real estate enterprises with foreign investment as filed with MOFCOM will not be permitted to borrow money from overseas, including through shareholder loans and foreign commercial loans. Further, for those which fail to file with MOFCOM after June 1, 2007, neither foreign exchange registration, foreign exchange alteration registration nor sale and purchase of foreign exchange under capital account will be effected with SAFE or its branches.

The No. 130 Rule was abolished on May 13, 2013 by the Notice on Distributing the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China and its Supporting Documents《國家外匯管理局關於印發<外國投資者境內直接投資外匯管理規定>及配套文件的通知》("**No. 21 Notice**") which was promulgated by SAFE on May 10, 2013. However, the restriction measures on the foreign debt of foreign-invested real estate enterprises stipulated in the No. 130 Rule have been reflected in the Measures for the Administration of Foreign Debt Registration《外債登記管理辦法》("**No. 19 Notice**") issued by SAFE on April 28, 2013.

On August 29, 2008, SAFE issued the "Notice of the General Department of the SAFE on Improving on Relevant Business Operations Issues Concerning the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises" 《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》("Notice 142") which regulates the conversion by a foreign-invested enterprise of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Notice 142 requires that the Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise may only be used for purposes within the

business scope of the relevant foreign invested companies approved by the applicable governmental authority and cannot be used for equity investments or acquisitions within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise. An offshore holding company that uses foreign exchange to invest in real estate businesses in the PRC is typically required to conduct the real estate operations through PRC subsidiaries that were established as foreign-invested real estate companies and invest in such foreign-invested PRC subsidiaries through equity contribution. In addition, it is required to complete the requisite filing procedures with MOFCOM before it can remit any funds from offshore. The use of such Renminbi capital may not be changed without SAFE's approval, and may not, in any case, be used to repay or prepay Renminbi loans if such loans have not been used. Violations of Notice 142 will result in severe penalties, such as heavy fines set out in the relevant foreign exchange control regulations.

On February 15, 2012, SAFE issued the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company 《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》, or the Stock Incentive Plan Rules, which terminated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas Publicly-Listed Company 《境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程》issued by SAFE in March 2007. Under these rules, PRC citizens who participate in a stock incentive plan in an overseas publicly-listed company are required to register with SAFE and complete certain other procedures. Participants in a stock incentive plan who are PRC citizens must retain a qualified PRC domestic agent, which could be a PRC subsidiary of such overseas publicly-listed company that participates in the stock incentive plan or other qualified PRC domestic institution designated by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options and their purchase and sale of stocks.

According to the Notice on Further Improving and Adjusting Management Policies on Foreign Exchange of Direct Investment《關於進一步改進和調整直接投資外匯管理政策的通知》, promulgated by the SAFE on November 19, 2012 and effective from December 17, 2012, foreign investors are no longer required to obtain approval from the SAFE to re-invest in China by using legal income generated in China. No approval from the SAFE is required for opening the bank account, payment into account, settlement of the foreign exchange and for the purchase and external payment of foreign exchange in relation to direct foreign investments in China. Also, domestic transfer of foreign exchange under direct investment account is no longer subject to approval by the SAFE. In addition, the foreign invested entities are permitted to remit funds to their offshore parent companies.