OVERVIEW

Our business operations are subject to extensive supervision and regulation by the PRC government. This section sets out (i) an introduction to the major PRC government authorities with jurisdiction over our current operations; and (ii) a summary of the laws, regulations and policies to which we are subject.

FOREIGN INVESTMENT POLICY

According to the Catalogue of Industries for Guiding Foreign Investment (Revised 2017) (《外商投資產業指導目錄(2017年修訂)》) promulgated by the Ministry of Commerce and NDRC, construction and operation of wastewater treatment plants fall within the "encouraged" industry for foreign investment in the PRC. Foreign investors may participate in the construction and operation of wastewater treatment projects within the territory of the PRC by means of establishment of joint ventures or wholly-foreign owned enterprises.

CAPITAL FUND SYSTEM

In accordance with the Notice of the State Council on Trial Implementation of Capital Fund System in Fixed Asset Investment Projects* (《國務院關於固定資產投資項目試行資本金制度的通知》) which was promulgated and implemented by the State Council on 23 August 1996, the Opinion on Utilizing Foreign Funds in the Construction of Municipal Public Utilities (For Trial Implementations)* (《關於城市市政公用設施建設利用外資工作的意見(試行)》) promulgated and implemented by the Ministry of Construction of the PRC* (中華人民共和國建設部) (now known as MOHURD) on 20 May 1997, and the Notice of the State Council on Adjusting the Proportions of Capital Fund in Fixed Asset Investment Projects* (《國務院關於調整固定資產投資項目資本金比例的通知》) promulgated and implemented by the State Council* (中華人民共和國國務院) ("**State Council**") on 25 May 2009, the capital fund system is adopted in fixed asset investment projects.

Under the capital fund system, investors must contribute a certain proportion of capital as the project company's capital funds. The proportion of such contribution in wastewater treatment projects must be no less than 20% of the total project investment amount and the specific proportion will be determined by the approval authority of that project when reviewing the feasibility study report, taking into consideration the projects' future economic benefits, banks' willingness to issue loans and appraisal opinions.

PROVISIONS ON URBAN DRAINAGE AND WASTEWATER TREATMENT

According to the Provisions on Urban Drainage and Wastewater Treatment* (《城鎮排水與污水處理條例》) which was promulgated by the State Council on 2 October 2013 and became effective from 1 January 2014, the competent department of housing and urban-rural development of the State Council is the supervisory authority of the work of urban drainage and wastewater treatment at the national level. Competent departments of urban drainage and wastewater treatment of local people's governments at or above the county level are the supervisory and administrative authority of urban drainage and wastewater treatment work within their respective administrative regions.

The state government of the PRC shall encourage the adoption of concession operation, government procurement of services and other various means to attract private capital to participate in the investment, construction and operation of urban drainage and wastewater treatment facilities. Upon completion of a construction project of urban drainage and wastewater treatment facilities, the project owner shall organize final inspection and acceptance in accordance with the law. The said projects shall be delivered for use only upon passing the final inspection and acceptance, and the project owner shall, within 15 days from the day when the said project passes the final inspection and acceptance, submit the report on final inspection and acceptance and relevant materials to the competent department of urban drainage concerned for record-filing. After urban drainage and sewage treatment facilities pass final inspection and acceptance upon completion, the competent department of urban drainage concerned shall determine qualified facilities maintenance and operation entities to be responsible for managing such facilities through bidding, entrustment and other ways. Competent departments of urban drainage shall enter into maintenance and operation contracts with entities responsible for the maintenance and operation of urban wastewater treatment facilities to specify the rights and obligations of both parties. Entities responsible for the maintenance and operation of urban wastewater treatment facilities shall ensure the quality of the water discharged meets national and local discharge standards, and may not discharge sewage incompliant with relevant standards.

Entities responsible for the maintenance and operation of urban sewage treatment facilities shall, in accordance with relevant state provisions of the PRC, test the quality of water inflow and outflow, submit to competent departments of urban drainage and competent departments of environmental protection information on the water quality and volume of sewage treatment as well as the volume of reduction of major pollutants, and submit production and operating costs and other information to the competent departments of urban drainage in accordance with relevant provisions and the contracts on maintenance and operation. Entities responsible for the maintenance and operation of urban sewage treatment facilities shall submit relevant cost information to competent price departments in accordance with relevant provisions of the state government of the PRC. Entities responsible for the maintenance and operation of urban sewage treatment facilities or entities responsible for sludge treatment and disposal shall treat and dispose of sludge in a safe manner, ensure that the sludge after treatment and disposal is in compliance with relevant national standards, track and record the sludge produced as well as the whereabouts, purposes and use volume of the sludge after treatment and disposal, and report the same to competent departments of urban drainage and competent departments of environmental protection.

Drainage entities and individuals shall pay wastewater treatment fees to the local government in accordance with relevant provisions of the state government of the PRC. Wastewater treatment fees shall be included in local fiscal budgets for management, be earmarked for the construction and operation of urban sewage treatment facilities and sludge treatment and disposal, and shall not be diverted for any other purposes. The rates of wastewater treatment fees shall not be lower than the normal operating costs of urban wastewater treatment facilities. Local people's governments shall grant subsidies where the amount of wastewater treatment fees collected is insufficient to cover the normal operating costs of urban wastewater treatment facilities in circumstances as deemed necessary by the local people's government.

CONCESSION IN MUNICIPAL PUBLIC UTILITIES PROJECTS

According to the Circular of the Ministry of Construction on Issuing the Opinions on Accelerating the Marketization of Municipal Public Utilities Industry* (《建設部關於印發〈關於加快市政公用行業市場化進程的意見〉的通知》promulgated and implemented by the former Ministry of Construction (now known as MOHURD) on 27 December, 2002, the concession system shall be established in the municipal public utilities industries, under which the governments grant enterprises the right to engage in certain products or services of municipal public utilities within a given time limit and scope and specify through contracts and agreements or otherwise the rights and obligations between the governments and the enterprises granted concession. The municipal public utility industries subject to concession include urban water, gas and heat supply, wastewater treatment, garbage disposal and public transport and other industries directly related to social public interests and involving allocation of limited public resources. For the municipal public utilities industries subject to concession, the governments shall select relevant investors or operators following the specified public bidding procedures.

According to the Measures for the Administration on the Concession of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》) promulgated by the former Ministry of Construction on 19 March, 2004, implemented on 1 May 2004 and revised on 4 May 2015, for urban water, gas and heat supply, public transport, wastewater treatment, garbage disposal and other industries that are subject to concession according to law, the governments shall select investors or operators of municipal public utilities projects through market competition mechanism, clarifying that they may engage in certain products of municipal public utilities or provide certain services within a given time limit and scope. The competent departments of municipal public utilities of the people's governments of municipalities directly under the central governments, cities, and counties (hereinafter referred to as the Competent Departments) shall be responsible for the specific implementation of the concession of municipal public utilities within their own administrative regions with the authorization of the people's governments.

According to the Measures for the Administration on the Concession of Infrastructure and Public Utilities* (《基礎設施和公用事業特許經營管理辦法》) which was promulgated on 25 April 2015 and implemented on 1 June 2015, the competent departments of the relevant industry in people's governments at or above county level or the departments authorized by the governments may, in accordance with the needs of economic and social development, as well as the proposals for concession projects made by the relevant legal persons and other organizations, etc., put forward the implementation plans of concession projects. People's governments at or above county level may authorize relevant departments or entities as implementing organizations responsible for relevant implementation of concession projects and specify the specific scope of authorization. The development and reform department, finance department, land and resources department, environmental protection department, housing and urban-rural development department, transport department, water resources department, pricing department, energy department, financial supervision department shall be responsible for the implementation, supervision and administration of relevant concession projects in accordance with their assignment of responsibilities. The implementing organizations shall, in accordance with the approved implementation plans of concession projects, select the grantees of concession rights through bidding, competitive negotiation and other competitive modes and sign concession agreements with grantees of concession rights selected according to law. A concession agreement may, in accordance with the relevant laws, administrative regulations and national regulations, prescribe that the grantees of concession rights could gain earnings by charging users. When the charges are insufficient to cover the

construction and operating costs of concession projects and an amount of reasonable earnings, the governments may provide feasibility gap subsidies, including other relevant development and operation rights and interests granted by the governments for concession projects. Parties to concession agreements shall abide by the principle of good faith, and completely fulfill their obligations pursuant to the agreements. Unless otherwise stipulated in laws or administrative regulations, any party of implementation authorities or concessionaires who failed to fulfill the contractual obligations under the concession agreements or their fulfillment of obligations failed to meet the requirements as agreed, shall continue to fulfill their obligations, take remedial measures or compensate for losses.

PROMOTION ON PPP (PUBLIC-PRIVATE PARTNERSHIP)

According to the Guiding Opinions of the State Council on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment* (《國務院關於創新重點領域投融資機制鼓勵社會投資的指導意見》) promulgated and implemented by the State Council on 16 November 2014, the PRC government encourages social capitals participation in the municipal infrastructure projects including urban water supply, wastewater treatment and garbage disposal by concession, investment subsidy, government's purchase of services and other methods and shall choose eligible operators in accordance with the law. The government may also employ the entrusted operation or transfer-operate-transfer (TOT) and other operation ways to transfer the built municipal infrastructure projects to social capitals for operation and management.

According to the Guiding Opinions of the National Development and Reform Commission on Launching the Cooperation between Governments and Social Capitals* (《國家發展改革委關於開展政府和社會資本合作的指導意見》) promulgated and implemented by NDRC on 2 December 2014, PPP mode is mainly applicable to the public services and infrastructural projects which are provided by the government and suitable for marketable operation, such as water supply, wastewater treatment and garbage disposal. Development and reform committees of all provinces and cities shall establish the PPP project library, and shall submit the project progress information to NDRC prior to the fifth day of each month from January 2015 onwards.

According to the Circular of the Ministry of Finance* (中華人民共和國財政部) on Issues Concerning the Promotion and Application of the Public-Private Partnership Model* (《財政部關於推廣運用政府和社會資本合作模式有關問題的通知》) promulgated and implemented by Ministry of Finance on 23 September 2014, the Circular of the Ministry of Finance on Issues Concerning the Implementation of the Demonstration Project Cooperated between Governments and Social Capitals* (《財政部關於政府和社會資本合作示範項目實施有關問題的通知》) promulgated and implemented by Ministry of Finance on 30 November 2014 and the Circular of the Ministry of Finance on Regulating the Management of Co-operative Contract between Governments and Social Capitals (《財政部關於規範政府和社會資本合作合同管理工作的通知》) promulgated and implemented by Ministry of Finance on 30 December 2014, government authorities set up series guidelines of the cooperation between governments and social capitals under PPP mode, including project management and co-operative contract management.

TERMS OF CONCESSION RIGHTS

According to the Measures for the Administration on the Concession of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》) promulgated by the former Ministry of Construction on 19 March 2004, implemented on 1 May 2004 and amended on 4 May 2015 and the Measures for the Administration on the Concession of Infrastructure and Public Utilities* (《基礎設施和公用事業特許經營管理辦法》) which was promulgated by NDRC, Ministry of Finance, MOHURD, the Ministry of Transport, the Ministry of Water Resources and the PBOC on 25 April 2015 and implemented on 1 June 2015, the term of concession for infrastructure and public utilities shall be determined in light of the industry characteristics, the public products provided or service needs, the project life cycle, the investment payback period, and other integrated factors and shall not exceed 30 years at a maximum. For a concession project of infrastructure and public utilities with large investment scale and long payback period, the government or its authorized department may, in light of the reality of the project, agree on a term of concession exceeding the term as prescribed in the preceding paragraph, with the concessionaire. Upon expiry or early termination of concession agreement, where the infrastructure and public utility shall continue to be operated under concession, implementing institutions shall conduct new selection on concessionaire. Where new selection is conducted upon expiry, the original concessionaire shall be prioritised for such concession under equal conditions.

GOVERNMENT SUPERVISION ON CONCESSIONAIRE

According to the Administrative Measures for the Franchising of Infrastructure and Public Utilities* (《基礎設施和公用事業特許經管管理辦法》) and the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities* (《建設部關於加強市政公用事業監管的意見》), the government's supervision on the concessionaires regarding wastewater treatment projects mainly includes the following:

Routine supervision

The government authorities in charge of supervising the municipal public utilities shall carry out supervision on the quality of the products and services provided by concessionaires regularly and shall supervise the cost of the products and services provided by the concessionaires. Audit departments at or above county level shall audit the operation of concession projects according to law.

Periodic supervision

The implementation administration shall, based on the concession agreement, conduct regular monitoring and analysis for the construction and operation of a concession project, carry out performance evaluation in concert with the relevant authorities, and establish the mechanism of adjusting prices or fiscal subsidies as per the concession agreement to ensure the quality and efficiency of public products or services.

Consequences of violation

Where a concessionaire violates laws, administrative regulations or national compulsory standards, materially jeopardizing public interests, or causing serious quality, safety or environment accidents, the relevant authorities shall order it to rectify within a time limit, and impose administrative penalty. If the concessionaire refuses to rectify, the concession agreement may be terminated in serious circumstances, or the concessionaire may be prosecuted for criminal liability according to law for any crimes committed.

CONSTRUCTION PROJECT TENDER

According to the Construction Law of the PRC* (《中華人民共和國建築法》) which was modified on 22 April 2011 and implemented on 1 July 2011, and the Bidding Law of the PRC* (Revised in 2017) (《中華人民共和國招標投標法》 adopted by the NPC Standing Committee, certain large-scale infrastructure and public utilities projects relating to social and public welfare and safety within the PRC, including surveying and prospecting, design, engineering and supervision of such projects, as well as the procurement of major equipment and materials regarding engineering and construction, shall be subject to bidding. The bid winner may, according to the provisions of the contract or the consent of the owner, sub-contract parts of the work that are not vital or principal to the project. The Regulation on the Implementation of the Bidding Law of the PRC* (Revised in 2017) (《中華人民共和國招標投標法實施條例》) further provides the specific requirements for supervision and administration of bidding and tendering.

The Provisions on Standards for the Scope and Size of Construction Projects Requiring Bidding* (《工程建設項目招標範圍和規模標準規定》) issued and implemented by the State Development Planning Commission* (國家發展計劃委員會) (now known as NDRC) on 1 May 2000 and the Administrative Measures of Bidding for Construction Project of Buildings and Public Infrastructures* (《房屋建築和市政基礎設施工程施工招標投標管理辦法》) issued and implemented by the Ministry of Construction of the PRC on 1 June 2001 further provide the specific requirements for bidding.

The Provisions on Bidding of Exploration and Design Work for Construction Project* (《工程建設項目勘察設計招標投標辦法》), the Provisions on Bidding of Construction Projects* (《工程建設項目施工招標投標辦法》), the Regulation on the Implementation of the Bidding Law of the PRC* (Revised in 2017) (《中華人民共和國招標投標法實施條例》) and relevant specific provisions specify the requirement, and procedures for bidding.

ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) which was revised on 24 April 2014, pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities.

According to the Law of the PRC on Appraising of Environmental Impact* (《中華人民共和國環境影響評價法》) which was revised on 2 July 2016 and came into effect on 1 September 2016, the state government of the PRC shall classify and administer the environmental impact appraisals in accordance with the degree of environmental impact. If a construction project may result in a material impact on the

environment, an environmental impact report is required, which thoroughly appraises the potential environmental impact. If the construction project may result in a slight impact on the environment, an environmental impact report of analyzing or appraising the specific potential environmental impact is required, and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but an environmental impact registration form shall be filed.

According to the Administrative Regulations on Environmental Protection for Construction Projects (Revised in 2017)* (《建設項目環境保護管理條例》), where a builder violates the provisions of these regulations in the case where the complementary environmental protection facilities of a construction project are not constructed, or where the construction project is put into production when the environmental protection facilities have not undergone acceptance inspection or do not pass acceptance inspection, or where the builder commits fraud in the acceptance inspection for the environmental protection facilities, the environmental protection administrative authorities shall order the builder to make correction with a time limited and impose a fine ranging from RMB200,000 to RMB1 million; where the correction is not made within the stipulated period, a fine ranging from RMB1 million to RMB2 million shall be imposed; for the directly accountable person(s)-in-charge and other accountable personnel, a fine ranging from RMB50,000 to RMB200,000 shall be imposed; where the construction project causes significant environmental pollution or ecological damage, the production or use shall be suspended, or the project shall be closed down upon approval by the relevant people's government.

According to the Interim Measures for Environmental Protection and Acceptance of Construction Projects Completed* (《建設項目竣工環境保護驗收暫行辦法》) promulgated on 20 November 2017, after the completion of the construction project, the builder shall truthfully examine, monitor and record the construction and commissioning of the environmental protection facilities of the construction project, and prepare the acceptance monitoring (investigation) report.

Furthermore, pursuant to the laws and regulations stated above, an enterprise that discharges and disposes toxic and hazardous materials including wastewater, shall comply with the applicable national and local standards on such materials, as well as report to or register with the applicable environmental protection authority. Failure to comply may result in a warning, an order or a penalty against such enterprise. Before commencing a construction project, an environmental impact assessment report must be submitted by an enterprise to the relevant environmental protection authority for approval. Relevant projects may be put into trial production once they obtain the approval for trial production from relevant authorities. An acceptance inspection by the relevant environmental protection authority is required before a completed project is allowed to commence its commercial operations.

WATER QUALITY

The water quality of effluent flowing from municipal wastewater treatment plants should comply with the standards set out in the National Wastewater Discharge Standards promulgated on 24 December 2002 and amended in May 2006. According to the Law of the PRC on the Prevention and Control of Water Pollution (Revised on 27 June 2017 and became effective on 1 January 2018)* (《中華人民共和國水污染防治法》), the company operating centralized treatment facilities for municipal wastewater is responsible for the quality of the effluent from the wastewater treatment plant.

Pollutants Discharge Permit

According to the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) revised by the NPC Standing Committee* (全國人民代表大會常務委員會) on 24 April 2014 and implemented on 1 January 2015, Law of the PRC on the Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》) revised on 27 June 2017 and implemented on 1 January 2018 and the Implementing Rules of the Law of the PRC on the Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法實施細則》) promulgated and implemented by the State Council on 20 March 2000, an enterprise operating centralized treatment facilities of urban wastewater shall obtain a pollutant discharge permit. It is forbidden for enterprises and public institutions to discharge wastewater into the water body without a pollutant discharge permit or in violation of the provisions of the pollutant discharge permit.

According to the Regulations for Administration on Pollutants Discharge of Ningxia Hui Autonomous Region* (《寧夏回族自治區污染物排放管理條例》) promulgated on 29 September 2014 and implemented on 1 January 2015, an applicant for pollutants discharge permit must satisfy the following requirements: (i) production capacity, processes, equipments and products shall be in compliance with the requirements of national and regional industrial policies; (ii) the applicant shall have its environmental impact assessment documentation examined and approved by the environment protection authority; (iii) the pollution prevention facilities are in line with the requirements under environmental impact assessment documents; (iv) the emission of pollutants are in line with the requirements of national and regional standards and the total controlling indicator of the main pollutants discharge; (v) setting a standardized sewage outfall in accordance with relevant rules; (vi) the monitoring equipment has been installed in accordance with relevant rules and connected to environmental protection authority; (vii) adopted precautionary plans in response to environmental emergencies; and (viii) other requirements as required by the laws and regulations.

According to the Circular on Print and Distribution of the Implementation Scheme for the License System of Pollutant Discharge Control* (《關於印發控制污染物排放許可制實施方案的通知》) issued by the General Office of the State Council on 10 November 2016, the license system of pollutant discharge control is specified as the fundamental environmental management system for legally standardizing pollutant discharge activities of enterprises and institutions, and environmental protection department shall implement the license system of pollutant discharge by issuing pollutant discharge permits to enterprises and institutions and carrying out supervision in accordance with the permits.

According to the Notice on Print and Distribution of the Interim Provisions on the Administration of Pollutant Discharge Permits* (《關於印發〈排污許可證管理暫行規定〉的通知》) issued by MEP on 23 December 2016, MEP shall implement the sewage licensing management on the discharge of industrial waste gas or toxic and harmful air pollutants stipulated by the state of enterprises, institutions and towns, as well as operating units that operates industrial sewage centralized treatment facilities. MEP shall formulate and publish a list of the classification and management of sewage permit according to the industry, and step by step to promote the management of sewage license in batches. The pollutant discharging unit shall, within the time limit specified in the directory, discharge sewage with certification, prohibiting discharge without certification or discharge not on the basis of the certification.

According to the Classification and Administration Lists of Pollutant Discharge Permits for Stationary Pollution Sources (Version 2017)* (《固定污染源排污許可分類管理名錄(2017年版)》) issued by MEP on 28 July 2017 (the "**List**"), the existing enterprises and public institutions and other producers and operators should apply for pollutant discharge permits within the execution period in accordance with the requirements under the List. Discharge permits for wastewater treatment and reclaimed water treatment (including centralized treatment plants for industrial wastewater, urban residential wastewater treatment plants with a daily treatment capacity of 100,000 tons or more and for urban residential wastewater treatment plants with a daily treatment capacity of less than 100,000 tons), environmental sanitary administration (including centralized treatment for residential waste in towns and villages), centralized treatment for residential wastewater and centralized treatment for industrial wastewater (centralized treatment for residential wastewater and centralized treatment for industrial wastewater with a daily industrial wastewater treatment of 20,000 tons or more) shall be applied for before 2019. In addition, in accordance with the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation)* (《排污許可管理辦法(試行)》) promulgated by MEP on 10 January 2018, a pollutant discharging entity that has already been established and discharged pollutants before the time limit as provided on the List shall apply for a pollutant discharge permit within the time limit.

LAND USE RIGHTS AND CONSTRUCTION LAND PLANNING PERMIT

According to the revised Land Administration Law of the PRC* (《中華人民共和國土地管理法》) which became effective on 28 August 2004, land owned by the state government of the PRC may be granted or held under license by construction entity or individuals according to law. The state government of the PRC at or above the county level shall register and put on record in respect of the usage of state-owned land used by construction entity or individuals, and issue certificates to certify the land use rights. If the land is occupied without approval or by deception, the land administrative departments of the state government of the PRC at or above the county level shall order the construction entity or individuals to return the land that is illegally occupied. Where the act involves turning agricultural land into land for construction uses without authorization, which is in violation of the general plan for utilisation of land, a demolition order may be imposed on the newly constructed buildings and other structures on the land illegally occupied requiring demolition within a prescribed time limit. In addition, the competent land administrative departments can issue an order to confiscate the newly constructed buildings and other structures and to impose a fine where the act has not violated the general plans for the utilisation of land. Persons directly responsible for the aforementioned misconduct are subject to administrative punishment and where the case constitutes a crime, criminal responsibility shall be affixed.

According to the Urban and Rural Planning Law* (《中華人民共和國城鄉規劃法》) revised on 24 April 2015 and implemented by the NPC Standing Committee, a construction land use planning permit is needed for the use of both allocated land and granted land.

Construction Land Use Planning Permit: For a construction project using allocated land, once the project has been authorized, approved, or recorded by relevant administrative departments, the construction entity of such project shall apply to the urban and rural planning administrative department at the municipal or county level for construction planning permission. The above-mentioned administrative department will further determine the location, size and scope allowed for construction based on regulatory detailed planning and will issue a construction land use planning permit.

Before the granting of a state-owned land use right, the urban and rural planning administrative department at the municipal or county level will specify certain planning conditions, such as the location and nature of the land based on the regulatory detailed planning. Such planning conditions will be incorporated in the state-owned land use right grant contract. After entering into such state-owned land using right grant contract, the construction entity using such granted land shall apply to the urban and rural planning administrative department at the municipal or county level for a construction land use planning permit.

If a construction entity who was authorized to use the construction land fails to obtain a construction land use planning permit, the state government of the PRC at or above the county level shall withdraw the authorization to use the state-owned land. If the land has already been occupied it shall be returned promptly. Furthermore, the construction entity shall be obliged to compensate for any damage caused to any other relevant parties according to law.

Construction Work Planning Permit: According to the Urban and Rural Planning Law* (《中華人民共和國城鄉規劃法》), for construction work that was conducted in the city or town planning area, the construction entity shall apply to the competent administrative department of the state government of the PRC for a construction work planning permit. For construction work that proceeded without the construction work planning permit or in violation of the provisions of the construction work planning permit, the urban and rural planning administrative department at or above the county level can order the termination of such construction. If the impact on the planning caused by such construction can be eliminated, the department shall order such construction entity to make a correction within a prescribed time limit and pay a fine of not less than 5% of the construction cost but not more than 10% of such cost; if such impact cannot be eliminated, the department shall order the construction entity to demolish such buildings or structures, for construction work that cannot, be demolished, the department shall confiscate such buildings or structures or seize any illegal income and may also impose a fine not more than 10% of the construction cost.

Commencement of Construction Work Permit: According to the Construction Law of the PRC* (《中華人民共和國建築法》) modified on 22 April 2011 and the Administrative Regulation of Construction Work Quality* (《建設工程質量管理條例》) revised on 7 October 2017, a construction entity shall, prior to the start of construction of a construction project, apply to the competent department of the construction administration of the PRC government at or above the county level of the place where the project is to be located for a commencement of construction work permit pursuant to the relevant regulations. However, small projects, as determined by the competent department of construction administration of the State Council, are subject to exceptions. In addition, a construction project which has already obtained approvals for its construction commencement report pursuant to the terms of reference and procedures prescribed by the State Council is no longer required to obtain a commencement of construction work permit. If a construction entity carries out construction work without obtaining a commencement of construction work permit or in circumstances where its construction commencement report has not been approved, it shall be ordered to stop the construction work and to make corrections within a certain time limit. The construction entity shall also be fined.

Acceptance Checks: According to the Administrative Regulation of Construction Work Quality* (《建設工程質量管理條例》) and the revised Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures* (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) which entered into effect on 19 October 2009, a construction project shall not be delivered for use unless it has passed the acceptance checks. Where a construction entity illegally delivers the construction project for use without obtaining the acceptance checks or in circumstances where it failed to pass the acceptance checks, it shall be ordered to make corrections and pay a fine of not less than 2% but not more than 4% of the contractual project price, and shall be obliged to pay compensation if any losses have been caused. The construction entity should file a record at the competent construction administrative department at or above the county level at the place where the project is located within 15 days from the day when the construction project passes the acceptance checks. If the construction entity fails to file such a record within the time limit, it shall be ordered to make corrections within a prescribed time limit and shall be fined not less than RMB200,000 but not more than RMB500,000.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY TRADEMARK

Pursuant to the Trademark Law of the PRC* (《中華人民共和國商標法》), which was promulgated on 23 August 1982 and became effective on 1 March 1983, then amended on 30 August 2013 and became effective on 1 May 2014, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. In addition, using a trademark that is identical with or similar to a registered trademark connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages.

PATENT

Pursuant to the Patent Law of the PRC* (《中華人民共和國專利法》), which was revised on 27 December 2008 and with effect from 1 October 2009, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit the patent, that is, make, use offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. And after a patent right is granted for a design, no entity or individual shall without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Where the infringement of patent is decided, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

PRC LAWS RELATING TO LABOUR

Pursuant to the PRC Labour Law* (《中華人民共和國勞動法》) revised in 2009 and the PRC Labour Contract Law* (《中華人民共和國勞動合同法》) which was promulgated on 29 June 2007 and revised on 28 December 2012, if an employment relationship is established between an entity and its employees, written labour contracts shall be prepared and such contracts can only be terminated in accordance with relevant laws, The relevant laws also stipulate the maximum number of working hours per day and per week respectively, and the requirements for entities to establish and develop systems for occupational safety and sanitation.

Pursuant to the Social Insurance Law of the PRC* (《中華人民共和國社會保險法》) which was promulgated on 28 October 2010 and took effect from 1 July 2011, employees shall participate in basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance schemes. Basic pension, basic medical insurance and unemployment insurance contributions shall be paid by contributions shall be solely borne by employers.

Pursuant to the Regulations on the Administration of Housing Fund* (《住房公積金管理條例》) which was promulgated on 3 April 1999 and amended on 24 March 2002, PRC companies must register with the applicable housing fund management center and open a special housing fund account in an entrusted bank. Each of the PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5% of an individual employee's monthly average wage of the preceding year.

TAXATION

Value-added Tax

The Temporary Regulations on Value-added Tax* (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on 13 December 1993, implemented on 1 January 1994, and amended on 10 November 2008, implemented on 1 January 2009 and amended on 6 February 2016, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax* (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated and implemented by Ministry of Finance on 25 December 1993, and was amended on 15 December 2008, 28 October 2011 and 19 November 2017, set out that all taxpayers selling goods or providing processing, repairing or maintenance services in China, or importing goods to the PRC shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or maintenance services.

According to Caishui [2018] No. 32, jointly issued by the MOF and SAT, all industries that are subject to 17% and 11% VAT rate (including goods, labour services, services, intangible assets, and fixed assets, etc.) will be adjusted to 16% and 10% respectively with effect from 1 May 2018.

Enterprise Income Tax

According to the EIT Law and the Implementation Rules on the Enterprise Income Tax Law of the PRC* (《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 became effective on 1 January 2008, enterprise Income tax rates applicable to both domestic and foreign-invested enterprises were unified at 25% effective from 1 January 2008.

Under the EIT Law and the implementation rules issued by the State Council of the PRC, withholding income tax at the rate of 10% is applicable to dividends payable by a PRC tax resident enterprise to investors (excluding individual natural persons) that are "non-resident enterprises" (who do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent that such dividends have their sources within the PRC, unless it is entitled to a reduction of such withholding tax under applicable tax treaties. Similarly, any gain realized on the transfer of shares of a PRC tax resident enterprise by such investors is also subject to 10% (or a lower treaty rate) income tax if such gain is regarded as income derived from sources within the PRC.

Furthermore, the income derived from environmental protection projects or energy and water saving projects which meet relevant requirements shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations and thereafter be entitled to a 50% reduction from enterprise income tax for the next three years. The Ministry of Finance, SAT and NDRC jointly promulgate the Catalogue of Enterprise Income Tax Preference in Environmental Protection and Energy and Water Saving Projects (Trial)* (《環境保護、節能節水項目企業所得稅優惠目錄(試行)》) on 31 December 2009 to specify the conditions and scope of such projects.

Urban Maintenance and Construction Tax as well as Education Surtax

According to Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign-invested Enterprises and Individuals* (《國務院團於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) which was promulgated on 18 October 2010, and with effect from 1 December 2010, the Tentative 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》) promulgated in 1985 and last amended on 8 January 2011, as well as the Tentative Provisions on the Collection of Educational Surtax (《徵收教育費附加的暫行規定》) promulgated on 28 April 1986 and last amended on 8 January 2011 by the State Council shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to Tentative Regulations of the PRC on Urban Maintenance and Construction Tax and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax* (《國家稅務總局關於城市維護建設稅徵收問題的通知》) which was promulgated on 12 March 1994 and with effect from the same date, any unit or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town respectively.

In accordance with Tentative Regulation on the Collection of Educational Surtax* (《徵收教育費附加的暫行規定》) ("**Tentative Regulation**"), all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Tentative Regulation. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

Tax Benefits

According to the Circular on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources* (《關於印發〈資源綜合利用產品和勞務增值税優惠目錄〉的通知》) promulgated by Ministry of Finance and SAT on 12 June 2015 and implemented on 1 July 2015, taxpayers who are engaged in the sale of products made by themselves through comprehensive utilization of resources and the provision of services involving the comprehensive utilization of resources may enjoy the VAT policy of immediate refund upon payment. The refund proportion for sewage treatment service, garbage disposal, and sludge treatment and disposal service is 70%.

FOREIGN EXCHANGE REGISTRATION, FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

The principal regulation governing foreign currency 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 are last amended and promulgated on 5 August 2008 and with effect from the same date, the RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Rules of the PRC* (《中華人民共和國外匯管理條例》), foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (including board resolutions, tax certificates), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency to satisfy foreign exchange liabilities.

Dividend distribution

Before the promulgation of the EIT Law, the principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law of the PRC* (《中華人民共和國外資企業法》), the Income Tax Law of the PRC for Foreign-Invested Enterprises and Foreign Enterprises* (《中華人民共和國外商投資企業和外國企業所得税法》) and their respective implementation regulations.

Under these regulations, wholly foreign-owned enterprises in PRC may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this exemption provision has been revoked by the EIT Law which prescribes a standard withholding tax rate of 20% on dividends and other PRC-sourced passive income of non-resident enterprises. The EIT Law and its implementation rules reduced the rate from 20% to 10%, effective from 1 January 2008.

The PRC and the government of Hong Kong SAR signed the Arrangement between the Mainland of the PRC and Hong Kong SAR 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税避免雙重徵税和防止偷漏税的安排》) on 21 August 2006 (the "**Arrangement**"). According to the Arrangement, the

withholding tax rate of 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. The withholding tax rate of 10% applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company.

Furthermore, pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements* (《國家税務總局關於執行税收協定股息條款有關問題的通知》), which was promulgated and with effect from 20 February 2009, all of the following conditions should be satisfied simultaneously where the tax payer needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident enterprise: (i) the tax resident of the other side who obtains dividends shall, in accordance with the provisions of the tax agreement, be limited to company; (ii) the proportions of the total amount of the owner's equities and the voting shares of the PRC resident enterprise directly owned by the tax resident of the other side complies with the prescribed proportions; and (iii) the proportion of equities owned by the tax resident of the other side shall, at any time within the successive 12 months before obtaining dividends, comply with the proportion specified in the tax agreement.

APPROVALS REQUIRED FOR REORGANISATION AND LISTING

Registration Process Under the Circular 37

According to Circular of the State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round-tripping by Domestic Residents through Special Purpose Vehicles* (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "**Circular 37**") promulgated on 4 July 2014 by the SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of SAFE before they establish or control any offshore special purpose vehicles for the purpose of investment and financing with the assets or equity interests of PRC domestic companies or the overseas assets or equity owned by them. Pursuant to Circular 37, the domestic resident natural persons include those individuals who hold PRC citizenship and those individuals who are not PRC nationals but reside habitually in the PRC for the purpose of economic interests.

Provisions on Merger and Acquisition of Domestic Enterprise by Foreign Investors in the PPC

Pursuant to the Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) promulgated by six PRC regulatory agencies in August 2006, and amended on 22 June 2009 by MOFCOM, where a company, enterprise, or natural person in the PRC acquires an affiliated company in the PRC in the name of its lawfully established or controlled overseas company, examination and approval procedures must be processed through MOFCOM. Further, overseas listing of a special purpose vehicle, which is directly or indirectly controlled by a domestic company or natural person for the purpose of overseas listing of the interests in a domestic company actually held by such domestic company or natural person, shall be subject to approval of China Securities Regulatory Commission.