

Tax Rates

The People's Republic of China levies a wide range of taxes including income taxes, turnover taxes, taxes on real estates and other taxes such as deed tax, stamp duty, custom duties, vehicle and vessel tax, urban construction and maintenance tax, etc.

We listed below the main taxes levied and the related tax rates:

| Tax | Rate | Tax | Rate |
|-----------------------|----------|--|-------------------------------|
| Corporate Income Tax | 25% | Land Appreciation Tax | 30% - 60% |
| Individual Income Tax | 3% - 45% | Real Estate Tax | 1.2% or 12% |
| Value Added Tax | 3% - 17% | Stamp Duty | 0.03%-0.1% |
| Business Tax | 3% - 20% | Deed Tax | 3% - 5% |
| Consumption Tax | 1% - 45% | Urban Construction and Maintenance Tax | 1%-7% on Turnover tax payment |
| Custom Duty | 10%-50% | | |

Highlights

The China tax regime adopts the industry-oriented, limited geography based incentive policy. The tax incentive policies mainly include: tax reduction and exemption, reduce tax rate, reduction of revenue, tax refund etc.

We table some industries/areas which enjoy the corporate income tax incentive for reference.

| Industries | CIT incentive | Valid period |
|--|---|---------------------------------------|
| Agriculture, forestry, animal-husbandry and fishery projects | Exemption or 50% reduction | |
| Specified basic infrastructure projects | 3 years exempted + 3 years 50% reduction | From the first income-generating year |
| Environment protection projects and energy/water saving projects | 3 years exempted + 3 years 50% reduction | From the first income-generating year |
| Software enterprises | 2 years exempted + 3 years 50% reduction | From the first profit-making year |
| Integrated circuits design enterprises | 2 years exempted + 3 years 50% reduction | From the first profit-making year |
| High tech enterprises | Tax rate of 15% | |
| Encouraged enterprises in western area | Tax rate of 15% if criteria are satisfied | From year 2010 to 2020 |

Current Tax Reforms

The China State Council launched the Business Tax ("BT") to Value Added Tax ("VAT") transformation pilot program. The pilot program was first implemented in Shanghai on 1 January, 2012, on 1 September 2012 in Beijing and was later rolled out nationwide from 1 August, 2013.

The industries covered in this program focus on the Transportation and Modern Service sectors which are set out in the following table:

| Pilot Industries | Applicable VAT rate |
|---|---------------------|
| Transportation Service | 11% |
| Tangible movable property leasing | 17% |
| Certain Modern Service Industries | |
| <i>R&D and technical services</i> | 6% |
| <i>Information Technology services</i> | 6% |
| <i>Culture creative services</i> | 6% |
| <i>Logistic auxiliary services</i> | 6% |
| <i>Certification and consulting service</i> | 6% |
| Broadcasting services of radio, films and television programs | 6% |

All entities and individuals engaging the Transportation and Modern Service industry, and the overseas entities and individuals providing the services to the Chinese enterprises shall be applied to the provisions of the VAT reform program.

Outlook

- Economic growth will be decelerated in 2014 amid less accommodative macro policy, while inflation is likely to trend higher. Monetary policy stance will be tighter in practice, with fiscal policy acting as an automatic growth "stabiliser";
- Improved consumption and exports will offset the impact of tighter financial conditions in 2014;
- The investment will slow, as tighter financial conditions combined with policies to trim overcapacity accelerates the growth transition, but manufacturing investment should hold up;
- Concrete progress on reforms could boost confidence and spur a stock market re-rating in the medium term. More fluctuations are expected in the CNY exchange rate, but conditions for medium-term CNY appreciation remain intact;
- From Chinese tax perspective, the prominent features would be: to enhance tax incentives administration; deepen the reform of Indirect Taxes; reform Resource Tax and introduce Environmental Tax; introduce legislation for Property Tax; and revise the Individual Income Tax regime.