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Case Analysis: VAT Exemption on Premium Payment in Equity Buyback Scenarios

By Ben Lu

I. Case Summary

In March 2020, Jiangsu-based partnership fund Entity A acquired a 10% equity stake in Company A through capital injection, with an investment cost of 10 million RMB. Under the agreement, if Company A failed to meet the performance targets, Entity A had the right to demand that the actual controller and other shareholders of Company A buy back the 10% equity at a premium, calculated at an annualized return of 9%.

In March 2023, due to Company A's failure to meet the performance conditions, Entity A invoked the buyback clause. By May 2023, the parties reached an agreement for the buyback at a total price of 12.7 million RMB, reflecting a premium of 2.7 million RMB over the original investment amount, calculated at 90,000 RMB per year for 3 years.

The dispute centers around whether the premium payment of 2.7 million RMB should be considered interest income, thereby subject to VAT and its surcharges, or whether it should be treated as a capital gain from equity transfer, which would be exempt from VAT.

II. Analysis of the Buyback Clause as a Valuation Adjustment Mechanism

1. Essence of Equity Buybacks in the "Performance Clause"

According to the *National Court's Civil and Commercial Judgments Summary* (2019), "what is commonly referred to as a 'performance-based agreement' in practice, more accurately described as a valuation adjustment agreement, is a type of agreement created between investors and the financing party during an equity financing transaction. It aims to address the uncertainties surrounding the future development of the target company, and typically includes provisions for equity repurchase, financial compensation, and other mechanisms to adjust the target company's valuation in the future." This shows that equity buyback, as part of these agreements, is essentially a valuation adjustment mechanism.

However, there are views in practice that regard such buybacks as debt-like investments due to the fixed return model, where the buyback price is often predetermined with a fixed rate of return. This leads to the confusion of equating such equity buybacks with debt investments.

2. Equity Buyback vs. Debt-like Investment

Equity investments involve the infusion of capital into a company in exchange for equity stakes, which grants investors certain rights in corporate governance, decision-making, and profit-sharing. In contrast, debt investments, such as loans, do not entitle the lender to participation in the company's management or governance.

According to the *Enterprise Income Tax Law Implementation Rules* of the People's Republic of China, an "equity investment" is an investment received by an enterprise that

does not require the repayment of principal or payment of interest, and where the investor holds ownership of the enterprise's net assets. In contrast, a "debt investment" refers to an investment made by an enterprise directly or indirectly through its related parties, which require the repayment of principal and payment of interest, or compensation in another form with interest-like characteristics.

The essence of equity investment is the potential for capital appreciation and participation in corporate decisions, not merely fixed returns. Therefore, despite the fixed premium in the buyback agreement, it does not convert the nature of the investment into a debt-like structure.

III. Conclusion: Nature of the Premium Payment in Equity Buyback

Based on the above analysis, the premium payment in an equity buyback scenario should be recognized as part of a capital gain from equity transfer, not as interest income. If the equity being repurchased is held by individuals or non-legal entities like partnerships or sole proprietorships, it will fall under the category of "capital gain from property transfer" as defined by the current individual income tax law and its implementing regulations, specifically under the "capital gain from equity transfer." For legal entities, it will be classified as "revenue from property transfer" as stipulated in Article 6, Item (3) of the current Corporate Income Tax Law of the People's Republic of China, specifically referring to "revenue from equity transfer" as outlined in Article 16 of the Implementing Regulations of the Corporate Income Tax Law.

In either case, the premium payment does not constitute interest income and, therefore, should not be subject to VAT and its surcharges.

Insight: Analysis of the Civil and Tax Attributes of the Remuneration for Executive Partners in a Partnership Enterprise

By Daisy Gu

I. Civil Attributes of Executive Partners' Remuneration

1. Can Executive Partners Receive Remuneration from the Partnership?

Article 971 of the Civil Code stipulates that "partners may not request payment for performing partnership affairs unless otherwise agreed in the partnership agreement." Article 67 of the Partnership Enterprise Law (concerning limited partnerships) clarifies that "executive partners in a limited partnership may request the determination of remuneration and payment methods for performing partnership affairs in the partnership agreement." Therefore, in the case of an agreed arrangement, an executive partner in a limited partnership is entitled to receive remuneration from the partnership.

2. Civil Attribute of the Remuneration

a. Does an employment relationship exist between the executive partner and the partnership?

The current law does not provide a clear definition of whether an executive partner has an employment relationship with the partnership, and there is no uniform understanding in judicial practice. However, a case published by People's Court provided an interpretation of an employment relationship, defining it as a socio-economic relationship formed between an employer and an individual employee during the process of utilizing labor capacity and realizing labor value. This relationship is primarily characterized by two aspects: (1) During the labor process, the worker provides their labor as a form of contribution, which is subject to the employer's control and use. (2) A labor relationship has distinct subordination features, including personal, organizational, and economic subordination. Employees are required to accept the employer's management, comply with its rules and regulations, and receive corresponding remuneration based on the value of their labor. Of these two, subordination is regarded as the critical criterion for determining the existence of an employment relationship.

Although an executive partner may undertake additional labor, such labor is self-directed, aiming at serving own interests, and exhibiting a high degree of autonomy. Consequently, it lacks the core element of subordination required to establish an employment relationship.

b. Remuneration as Part of a Distribution Agreement among Partners

The remuneration for an executive partner is essentially part of the distributive share arrangement agreed upon by the partners. According to Article 33 and 34 of the Partnership Enterprise Law, profits and losses are distributed according to the partnership agreement, which is negotiated and agreed upon by all partners.

Additionally, unlike employees who receive salary and are not exposed to the risks of the enterprise's operations, executive partners bear the risk of profits and losses as they are involved in the management and operation of the partnership. Therefore, the remuneration for an executive partner should be seen as part of the overall distribution agreement among the partners, rather than as an employment contract between the partnership and the executive partner.

II. Tax Attributes of Executive Partners' Remuneration

1. Personal Income Tax Law and Remuneration Classification

Article 6, Paragraph 1, Subparagraph (1) of the Implementation Regulations of the Individual Income Tax Law stipulates that "wage and salary income refers to the income an individual receives as a result of their appointment or employment, including wages, salaries, bonuses, year-end raises, labor dividends, allowances, subsidies, and any other income related to their appointment or employment." Subparagraph (2) defines "income from services" as the income an individual earns from providing services, including income from activities such as design, decoration, installation, drafting, testing, medical services, legal services, accounting, consulting, lecturing, translation, editing, calligraphy, sculpture, film, audio and video recording, performance, advertising, exhibitions, technical

services, intermediary services, agency services, and other similar services."

Subparagraph (5) provides that "business income refers to: (1) the income earned by individual industrial and commercial households from production and business activities, as well as income earned by individual investors in sole proprietorships or individual partners in partnerships from the production and business activities of domestic sole proprietorships or partnerships."

Executive partners do not establish an employment relationship with the partnership, nor are their activities listed under the service income items. Therefore, their remuneration does not qualify as salary or income from labor services. Instead, it stems from the business income of the partnership.

2. Regulations on Taxation of Partnership Income

The Notice on the Individual Income Tax Collection of Investors in Sole Proprietorships and Partnerships (Finance and Tax [2000] No. 91) stipulates that the net income of a sole proprietorship or partnership (hereinafter referred to as "the enterprise") for each taxable year, after deducting costs, expenses, and losses, shall be treated as the investor's personal income derived from production and business operations. This income, which is subject to tax under the provisions related to "business income of individual industrial and commercial households" in the Individual Income Tax Law, will be taxed at a progressive rate ranging from 5% to 35%, according to a five-tiered system of excess progressive taxation. However, the remuneration for the investor shall not be deductible for tax purposes. Thus, the remuneration paid to executive partners is subject to individual income tax as business income, not as salary.

Conclusion

In summary, the remuneration for executive partners in a partnership enterprise should be understood as a form of remuneration for services rendered within the partnership framework, rather than as salary. It arises from the distribution arrangement among the partners and is subject to taxation as business income under the relevant tax regulations.

Regulatory Updates

Notice from the Shanghai Municipal Commission of Commerce and Eight Other Departments on Promoting the Implementation of the National Automobile Trade-in Subsidy Policy in the City

(Shanghai Commerce Market [2024] No. 159)

To all relevant units:

In order to implement the State Council's "Action Plan for Promoting Large-scale Equipment Renewal and Trade-in of Consumer Goods" (Guo Fa [2024] No. 7) and the Ministry of Commerce's "Implementation Details of Automobile Trade-in Subsidy" (Shang Consumer Letter [2024] No. 75), and to ensure the smooth implementation of the national automobile trade-in subsidy policy, the following matters are hereby notified.

1. Scope and Standards of Subsidy

From the date of the issuance of the "Implementation Details" (April 24, 2024) to December 31, 2024, individual consumers who scrap gasoline passenger cars with a National III or lower emission standard or new energy passenger cars registered before April 30, 2018 (inclusive), and purchase new energy passenger cars included in the Ministry of Industry and Information Technology's "List of New Energy Vehicle Models for Exemption from Vehicle Purchase Tax," will receive a subsidy of 10,000 RMB. Alternatively, consumers who scrap the above-mentioned vehicles and purchase gasoline passenger cars with an engine capacity of 2.0 liters or lower will receive a subsidy of 7,000 RMB.

Consumers who meet both the national policy and the "2024 Shanghai Old Car Trade-in Subsidy Implementation Details" and the "Shanghai Automobile Consumption Promotion Subsidy Implementation Details" will be eligible to apply for both subsidies simultaneously.

The term "passenger cars" refers to small and mini passenger cars registered with the public security traffic management departments. According to national standards, passenger cars that were registered before June 30, 2011 (inclusive) for gasoline vehicles, and before June 30, 2013 (inclusive) for diesel vehicles, or registered before April 30, 2018 (inclusive) for new energy vehicles, are eligible for trade-in subsidies. Other fuel types include hybrid oil, natural gas, liquefied petroleum gas, methanol, ethanol, hydrogen, and biofuels. Imported vehicles will be treated accordingly.

2. Eligibility and Requirements for Subsidy Application

- (1) **Subsidy applicants** must be individual consumers who purchase new cars within the city and receive a "Unified Motor Vehicle Sales Invoice."
- (2) **Vehicle Scrapping Requirements:** Consumers must scrap passenger cars (gasoline, diesel, or other fuel types) registered before June 30, 2011, or before June 30, 2013 for diesel vehicles, or new energy vehicles registered before April 30, 2018, and complete the scrapping and cancellation procedures. The dates of vehicle handover and cancellation must be between April 24, 2024, and December 31, 2024.
- (3) **New Car Purchase Requirements:** Consumers must purchase a new energy passenger car or a gasoline passenger car with an engine capacity of 2.0 liters or lower and complete the registration procedures. The purchase invoice date and vehicle registration date must be between April 24, 2024, and December 31, 2024.

3. Application and Review Process

- (1) **Mobile Application:** Applicants can apply via platforms like Alipay, Douyin, WeChat, or UnionPay Cloud QuickPass by searching for the "Automobile Trade-in" subsidy mini-program or scanning the QR code of the "Automobile Trade-in" mini-program.

(2) **Required Documents:**

- Applicant's identity information (upload front and back photos of the ID card).
- Applicant's bank account information.
- Photos or scans of the "Scrap Vehicle Recycling Certificate" and "Vehicle Cancellation Certificate."
- Photos or scans of the "Unified Motor Vehicle Sales Invoice" and "Vehicle Registration Certificate."

(3) The **Shanghai Municipal Commerce Commission** will process the applications and verify vehicle information with relevant departments. If the submitted information is accurate and complete, and the applicant qualifies for the subsidy, the application will be approved. Applicants with unclear or unidentifiable information will be asked to correct it before the deadline.

(4) **Deadline:** Applications should be submitted between April 24, 2024, and January 10, 2025. Any corrections must also be made by January 10, 2025, at 24:00. Late submissions will not be processed.

4. Subsidy Fund Management

The subsidy funds are shared by the central and local governments. The local government will allocate funds from the city's energy-saving and emission reduction special funds. The **Shanghai Municipal Commerce Commission** will review the applicants and submit the funding request to the **Shanghai Municipal Development and Reform Commission** after consolidating the information. The **Municipal Finance Bureau** will then transfer the funds to the applicants' bank accounts.

5. Responsibilities and Coordination

- **Shanghai Municipal Commerce Commission:** Responsible for processing applications and verifying vehicle information.
- **Shanghai Municipal Finance Bureau:** Ensures funding is available and manages the transfer of subsidy funds.
- **Other Relevant Departments:** Including the Economic Information Commission, Public Security Bureau, and others, each responsible for specific tasks such as vehicle registration, environmental standards review, and tax matters.

6. Additional Notes

- (1) All relevant departments must cooperate closely to ensure the subsidy program runs smoothly.
- (2) Applicants must provide truthful information and bear responsibility for the validity of their applications. Sales personnel and automobile sales institutions must not charge additional fees for assisting in the application.

- (3) Any fraudulent activity will be investigated, and penalties may apply, including the recovery of subsidy funds.

Issued by:

Shanghai Municipal Commerce Commission
Shanghai Municipal Finance Bureau
Shanghai Municipal Development and Reform Commission
Other relevant departments

Date: July 9, 2024

The Ministry of Finance and the State Taxation Administration's Announcement on Continuing the Implementation of Differential Personal Income Tax Policy for Dividends of Listed Companies in the National Equities Exchange and Quotations System (Announcement No. 8, 2024)

In order to promote the stable and healthy development of the capital market and support the growth of small and micro enterprises, the following announcement is made regarding the continued implementation of the differential personal income tax policy for dividends from companies listed in the National Equities Exchange and Quotations System (hereinafter referred to as "listed companies"):

1. For individuals holding stocks of listed companies, if the holding period exceeds one year, the dividend income will be temporarily exempt from personal income tax. For individuals holding stocks of listed companies for one month or less (including one month), the full amount of the dividend income will be included in the taxable income; for holdings between one month and one year (including one year), 50% of the dividend income will be included in the taxable income; all these incomes are subject to a 20% tax rate for personal income tax. For the purpose of this announcement, a listed company refers to a non-public company whose stocks are publicly traded on the National Equities Exchange and Quotations System. The holding period refers to the time from when an individual acquires the stock until the day before the stock is transferred.
2. When a listed company distributes dividends, for individuals who hold stocks for one year or less (including one year) on the record date and have not yet transferred them, the listed company will temporarily not withhold personal income tax. When the individual transfers the stocks, the securities registration and settlement company will calculate the tax amount based on the holding period, and the securities company or other stock custodians will deduct and remit the tax from the individual's account. The tax should be remitted to the listed company by the securities registration and settlement company within five working days of the following month. The listed company will report and pay the tax to the tax authority during the statutory reporting period in the month it receives the tax payment and will complete full declaration and withholding. Individuals are required to ensure sufficient funds in their accounts to fulfill their tax obligations. If the securities company or custodian encounters insufficient funds in an account, they must promptly notify the individual to make up the

shortfall and deduct the tax.

3. When an individual transfers stocks, the holding period will be calculated based on the "first in, first out" principle, meaning that stocks acquired earlier in the securities account are considered to be transferred first. The taxable income is calculated based on the securities account, with the number of stocks held determined by the end-of-day settlement records in the account. The number of stocks acquired or transferred is based on the net increase (or decrease) in the stock holdings as of the end of the day.
4. For dividends received by securities investment funds from listed companies, personal income tax will be calculated according to the provisions of this announcement.
5. The stocks referred to in this announcement include: (1) Stocks acquired before listing on the National Equities Exchange and Quotations System; (2) Stocks acquired through transfer on the National Equities Exchange and Quotations System; (3) Stocks acquired through judicial confiscation; (4) Stocks acquired through inheritance or family property division; (5) Stocks acquired through acquisitions; (6) Stocks acquired through the exercise of warrants; (7) Stocks acquired by subscribing or converting bonds with attached stock purchase rights or convertible bonds; (8) Stocks issued, including those from rights offerings, stock dividends, and capital increases; (9) Stocks converted from shares of a merged company; (10) Stocks converted from shares of a spun-off company; (11) Other stocks acquired through the National Equities Exchange and Quotations System.
6. The transfer of stocks refers to the following situations: (1) Stocks transferred through the National Equities Exchange and Quotations System; (2) Stocks confiscated by judicial order; (3) Transfer of stock ownership through inheritance, donation, or family property division; (4) Stocks transferred in a tender offer; (5) Stocks transferred through the exercise of a cash option; (6) Stocks used to subscribe or purchase exchange-traded funds (ETFs); (7) Other situations where there is an actual transfer of stock ownership.
7. For dividends received by individuals and securities investment funds from listed companies that were previously part of the STAQ or NET system (collectively referred to as "Two-net companies") or from delisted companies in the National Equities Exchange and Quotations System, personal income tax will be calculated according to this announcement. However, the restricted stocks of delisted companies will follow the provisions of the "Notice on Implementing the Differential Personal Income Tax Policy for Dividends of Listed Companies" (Cai Shui [2012] No. 85).
8. For the purposes of this announcement, the terms "year" and "month" refer to the calendar year and month, respectively. A holding period of one year refers to holding from a specific day in the previous year to the same day in the current

year. A holding period of one month refers to holding from a specific day in the previous month to the same day in the current month.

9. The Ministry of Finance, the State Taxation Administration, and the Securities Regulatory Commission shall strengthen coordination and cooperation to ensure the effective implementation of this policy. Listed companies, two-net companies, delisted companies, securities registration and settlement companies, and securities companies shall actively cooperate with tax authorities in managing personal income tax on dividends.
10. This announcement will be in effect from July 1, 2024, to December 31, 2027. Dividends from listed companies, two-net companies, and delisted companies with a record date between July 1, 2024, and December 31, 2027, will be subject to the provisions of this announcement. For stocks already held in individual investor accounts on the effective date of this announcement, the holding period will be calculated from the date of acquisition.

Issued by:
Ministry of Finance and the State Taxation Administration
Date: June 28, 2024

Regulations on Fixed Asset Loan Management

(Administrative Order No. 1 of 2024 by the National Financial Supervision and Administration Bureau)

Chapter 1 General Provisions

Article 1 These regulations are formulated to standardize the operations of fixed asset loan business in banking financial institutions, strengthen the prudent management of fixed asset loans, and promote the healthy development of the fixed asset loan business. They are based on the *Banking Supervision and Administration Law of the People's Republic of China*, the *Commercial Bank Law of the People's Republic of China*, and other relevant laws and regulations.

Article 2 The term "banking financial institutions" (hereinafter referred to as "lenders") in these regulations refers to financial institutions, including commercial banks, rural cooperative banks, rural credit cooperatives, and other institutions that accept public deposits and are established within the territory of the People's Republic of China.

Article 3 The term "fixed asset loans" in these regulations refers to loans provided by lenders to legal entities or non-legal entities (excluding entities prohibited from receiving bank loans according to relevant national regulations) for fixed asset investments in both domestic and foreign currencies.

The term "fixed asset investment" refers to the borrower's activities related to the construction, purchase, renovation, etc., of fixed assets during their business operations.

Article 4 The term "project financing" in these regulations refers to fixed asset loans that meet the following characteristics:

1. The loan is typically used for the construction of a large-scale production facility, infrastructure, real estate project, or other projects, including refinancing of ongoing or completed projects;
2. The borrower is generally a corporate entity specifically established for the purpose of constructing, operating, or financing the project, including existing enterprises or organizations primarily engaged in the construction, operation, or financing of the project;
3. The repayment sources primarily depend on the revenue generated by the project, such as sales income, subsidy income, or other project-related income, with limited reliance on other repayment sources.

Article 5 Lenders engaging in fixed asset loan business shall adhere to the principles of legal compliance, prudent management, equality, voluntariness, fairness, and integrity.

Article 6 Lenders shall improve internal control mechanisms, implement full-process loan management, comprehensively understand client and project information, establish risk management systems for fixed asset loans, and implement effective checks and balances at various positions. Responsibilities at each stage of loan management shall be assigned to specific departments and positions, and performance evaluation and accountability mechanisms shall be established for each position.

Article 7 Lenders shall incorporate fixed asset loans into unified credit management for borrowers and their group clients, and establish a risk limit management system based on the actual needs of risk management.

Article 8 Lenders shall agree with borrowers on clear and legal loan purposes, and shall inspect and supervise the use of loans in accordance with the agreement to prevent misuse of the loan.

Article 9 The term of a fixed asset loan generally shall not exceed ten years. If a loan with a term exceeding ten years is necessary, it must be approved by the lender's head office, or approval may be prudently delegated to the relevant level according to the actual situation.

Article 10 The interest rate on fixed asset loans shall follow the principle of market-based interest rates and be mutually agreed upon by both the lender and the borrower, in compliance with relevant national regulations.

Article 11 The National Financial Supervision and Administration Bureau and its dispatched institutions shall supervise and regulate fixed asset loan business in accordance with the law.

Chapter 2 Acceptance and Investigation

Article 12 The application for a fixed asset loan shall meet the following conditions:

1. The borrower must be lawfully registered and approved by the market supervision and management department or competent authority;

2. The borrower must have a good credit status;
3. For newly established project legal entities, the controlling shareholders must have a good credit status;
4. If the national policy requires investment qualifications or operational qualifications for the proposed investment project, these requirements must be met;
5. The loan purpose and repayment sources must be clear and legal;
6. The project must comply with national policies regarding industries, land, environmental protection, and other related areas, and the legal management procedures for fixed asset investment projects must be properly followed;
7. The project must comply with the national regulations on the capital requirements for investment projects;
8. Other conditions as required by the lender.

Article 13 The lender shall specify the methods and specific content of the application materials provided by the borrower, and require the borrower to adhere to the principles of honesty and integrity, ensuring that the materials provided are true, complete, and valid.

Article 14 The lender shall assign specific departments and positions responsible for due diligence and shall prepare a written report. The main content of the due diligence investigation includes:

1. Information regarding the borrower, project initiators, and other related parties, including but not limited to: ownership structure, organizational structure, corporate governance, internal control, business operations, core business, asset structure, financial and funding conditions, financing status, and creditworthiness;
2. Information regarding the loan project, including but not limited to: project construction content and feasibility, relevant approvals, permits, or filing requirements, the source and reliability of project capital and construction funds, qualifications of the project contractor, environmental risk considerations, etc.;
3. The borrower's repayment sources, major business plans, investment and financing plans, and expected future cash flow status;
4. Information regarding any guarantees, including but not limited to: the guarantor's ability to provide guarantees, the value of collateral (or rights) provided, etc.;
5. Other content that needs to be investigated.

The due diligence personnel shall ensure the authenticity, completeness, and validity of the due diligence report.

Chapter 3 Risk Evaluation and Approval

Article 15 The lender shall assign specific departments and positions to conduct a comprehensive risk evaluation of fixed asset loans and prepare a risk evaluation report.

Article 16 The lender shall establish a sound risk evaluation system for fixed asset loans, setting quantitative or qualitative indicators and standards. The core focus should be on debt repayment ability analysis, assessing the loan risks from the perspectives of the borrower, project initiators, project compliance, technical and financial feasibility of the project, market for the project's products, project financing plan, reliability of repayment sources, guarantees, insurance, and other factors. The lender must also fully consider the impact of policy changes, market fluctuations, and other uncertain factors on the project, and prudently forecast the project's future earnings and cash flow.

If, after evaluation, the lender considers the fixed asset loan to be manageable in terms of risk and decides to grant a credit loan, this should be thoroughly justified in the risk evaluation report.

Article 17 The lender shall follow the principles of separation of loan review and approval and hierarchical approval to regulate the fixed asset loan approval process. The lender shall clearly define loan approval authority to ensure that approval personnel independently approve the loan in accordance with their authorization.

Article 18 If the lender provides a fixed asset loan to shareholders or other related parties, it shall strictly adhere to relevant regulatory provisions on related party transactions. The loan conditions must not be more favorable than those for general borrowers, and this must be explained in the risk evaluation report.

Chapter 4 Contract Signing

Article 19 The lender shall sign written loan agreements and other relevant agreements with the borrower and any other relevant parties. If a guarantee is required, a guarantee contract or terms must also be signed. The contract should clearly outline the rights, obligations, and default responsibilities of each party, avoiding undefined, unclear, or invalid terms regarding important matters.

Article 20 The lender shall agree in the contract with the borrower on specific loan amount, term, interest rate, usage, disbursement, repayment guarantees, and risk handling, including relevant details.

Article 21 The lender shall specify in the contract with the borrower the conditions for disbursement and terms related to the management and control of loan funds. Disbursement conditions should include requirements such as capital being fully in place in proportion to the loan amount, and that the project's actual progress matches the investment made.

Article 22 The lender shall agree in the contract with the borrower to monitor the borrower's relevant accounts and, if necessary, establish dedicated loan disbursement accounts and repayment accounts.

Article 23 The lender shall require the borrower to make commitments in the contract

regarding key loan-related matters. These commitments include but are not limited to: (i) The loan project and its borrowing activities comply with legal and regulatory requirements; (ii) Timely provision of complete, truthful, and valid documentation to the lender; (iii) Cooperation with the lender in loan payment management, post-loan management, and relevant inspections; (iv) Obtaining the lender's consent before major changes such as mergers, splits, equity transfers, external investments that could affect the borrower's repayment ability, or provision of significant external guarantees; (v) Prompt notification to the lender of any major adverse matters affecting the borrower's repayment ability.

Article 24 The lender and the borrower shall agree in the contract that in the event of any of the following circumstances, the borrower shall bear the default responsibilities, and the lender may take actions such as early loan recovery, loan disbursement adjustments, interest rate adjustments, imposition of penalties, reduction of credit limits, and suspension or termination of loan disbursement: (i) Loan funds are used for unauthorized purposes; (ii) Loans are disbursed in an unauthorized manner; (iii) Failure to comply with commitments; (iv) Misrepresentation in loan application documents; (v) Breaching agreed financial indicators; (vi) Other violations of the loan agreement.

Article 25 The lender shall agree with the borrower in the contract on clear repayment arrangements. The lender shall reasonably determine the loan term and repayment method based on factors such as the repayment sources of fixed asset loans and the project's construction and operation cycle.

For loans exceeding one year, principal repayment should be made in installments. The lender should prudently agree with the borrower on the principal repayment amount per period, based on risk management requirements and considering the borrower's operating conditions and repayment source. The frequency of repayment should not be less than twice annually. If, after assessment, the lender deems it necessary to reduce the frequency of repayments, the frequency can be extended to no less than once per year. For loans where repayment sources primarily rely on revenue generated from the project's operations, the initial principal repayment date should not exceed one year from the project reaching the intended usable status.

Chapter 5 Loan Disbursement and Payment

Article 26 The lender shall establish independent departments or positions responsible for the review and approval of loan disbursement and payment.

Article 27 Before disbursing a loan, the lender must confirm that the borrower meets the disbursement conditions specified in the contract and manage and control the payment of loan funds in accordance with the agreed terms. The lender shall improve the payment control system for loan funds, strengthen the application of financial technology, and effectively monitor that loan funds are used according to the agreed purposes.

Article 28 If the contract specifies a dedicated loan disbursement account, loan disbursement and payment should be processed through that account.

Article 29 The lender shall manage and control the payment of loan funds either through entrusted payments or borrower self-payments.

- **Entrusted Payment** refers to the lender making payments to the borrower's transaction counterpart in accordance with the borrower's disbursement request and payment instructions, ensuring that the funds are used for the purposes specified in the contract.
- **Borrower Self-Payment** refers to the lender disbursing loan funds to the borrower's account, after which the borrower is responsible for making payments to the transaction counterpart in line with the contract's terms.

Article 30 For any single payment exceeding 10 million RMB to a borrower's transaction counterpart, the entrusted payment method must be used.

Article 31 When the entrusted payment method is used, the lender must review the borrower's transaction documentation to ensure compliance with contract terms before disbursing the loan funds. After agreeing to the review, the lender shall transfer the funds to the borrower's transaction counterpart via the borrower's account and document the details of the transaction. The lender may require the borrower, independent intermediaries, or contractors to jointly inspect the progress of fixed asset construction and, based on the joint inspection certificates that meet contract conditions, proceed with the loan disbursement.

The lender should, in principle, complete the payment to the borrower's transaction counterpart within five working days of loan disbursement. If the borrower causes delays in completing the entrusted payment, the lender should, in agreement with the borrower, complete the payment within ten working days at the latest. In case of force majeure preventing the completion of the entrusted payment, the lender and borrower should agree on a reasonable payment deadline.

For borrowers with a good record of loan fund usage and within the scope of the agreed loan purposes, and in cases where urgent funds are reasonably needed, the lender may simplify the required pre-payment documentation and process, provided that the risk is deemed controllable after evaluation. The lender should conduct post-loan review promptly and enhance the management of fund usage.

Article 32 When the borrower uses the self-payment method, the lender shall require the borrower to submit regular reports on loan fund payments. The lender should verify whether the loan payments comply with the agreed purposes, using account analysis, voucher checks, on-site investigations, and ensuring there is no attempt to circumvent entrusted payments by splitting payments into smaller amounts.

Article 33 Before disbursing a fixed asset loan, the lender must ensure that the project's capital contribution, in proportion to the loan, has been fully provided and is matched with the loan usage.

Article 34 During the loan disbursement and payment process, if the borrower encounters any of the following conditions, the lender shall negotiate with the borrower to

supplement the disbursement and payment conditions or, as per the contract, adjust the payment method, or stop or suspend loan disbursement and payment: (i) Decline in credit status; (ii) Significant deterioration in operational or financial conditions; (iii) Project progress lags behind the funding usage; (iv) Abnormal use of loan funds or attempts to circumvent entrusted payments; (v) Other significant violations of the contract terms.

Chapter 6 Post-Loan Management

Article 35 The lender shall strengthen monitoring of the borrower's misuse of loan funds. If the borrower is found to be misappropriating loan funds, the lender shall take appropriate actions as per the contract, such as requiring the borrower to rectify the situation, repay the loan early, or downgrade the loan risk classification.

Article 36 The lender shall regularly inspect and analyze the borrower's and project sponsor's performance, credit status, significant changes in equity structure, progress in project construction and operations, macroeconomic changes, market fluctuations, and changes in loan guarantees. The lender shall establish a loan quality monitoring system and a loan risk warning mechanism.

In the event of adverse conditions that may affect the safety of the loan, the lender shall reassess the loan risks and take targeted actions.

Article 37 If the actual investment in a project exceeds the originally planned amount, and the lender decides to approve additional loans after a re-evaluation of risks, the lender shall require the project sponsor to provide additional investment, not less than the proportion of project capital. If guarantees are required, the lender shall also require corresponding additional guarantees.

Article 38 The lender shall establish a post-loan dynamic monitoring and revaluation system for the value of collateral and the guarantee capacity of the guarantor.

Article 39 The lender shall strengthen monitoring of project fund retention accounts to ensure that loan disbursements align with the project's actual progress and funding needs.

Article 40 The lender shall dynamically monitor the revenue cash flows of fixed asset investment projects as well as the borrower's overall cash flow. Any abnormal situations should be promptly investigated, and appropriate measures should be taken.

Article 41 If the contract specifies a dedicated repayment account, the lender shall set requirements for the proportion of revenue cash flows from the fixed asset investment project or the borrower entering the account and the average balance of funds in the account, as necessary.

Article 42 If the borrower violates the terms of the contract, the lender shall take timely and effective actions. If necessary, the lender may seek legal remedies to hold the borrower accountable for breach of contract.

Article 43 If the borrower applies for a loan extension, the lender shall carefully assess the reasons for the extension and the feasibility of the subsequent repayment

arrangements. If the extension is agreed upon, the lender shall reasonably determine the extension period based on the borrower's repayment sources and other factors, strengthening post-loan management and classifying risks based on the actual risk situation.

For loans with a term of one year or less, the total extension period shall not exceed the original loan term. For loans with a term exceeding one year, the total extension period shall not exceed half of the original loan term.

Article 44 The lender shall recover loan principal and interest according to the terms of the loan agreement. If the borrower fails to repay the loan in accordance with the loan agreement, the lender shall take measures such as collection, agreement restructuring, debt assignment, or write-off to handle the loan.

Chapter 7 Project Financing

Article 45 When engaging in project financing, the lender must have the ability to identify and manage the risks associated with the project, employ the necessary professional personnel for business operations, and establish sound operational procedures and risk management mechanisms. If necessary, the lender may entrust or require the borrower to entrust qualified independent intermediary institutions to provide professional opinions or services in areas such as law, taxation, insurance, technology, environmental protection, and supervision.

Article 46 The lender shall fully identify and assess the construction and operational risks in the financing project, including policy risks, fundraising risks, completion risks, product market risks, cost-overflow risks, raw material risks, operational risks, exchange rate risks, environmental risks, social risks, and other related risks.

Article 47 The lender shall determine the loan amount reasonably, considering the project risk level, the lender's risk tolerance, and other factors, in accordance with the relevant national regulations regarding the capital system for fixed asset investment projects.

Article 48 The lender shall determine a reasonable loan interest rate in accordance with the risk-return matching principle, considering the project risks, risk mitigation measures, and other factors, and negotiate with the borrower. The lender may apply different interest rates depending on the risk characteristics and level at different stages of the project financing.

Article 49 As a general rule, the lender shall require that project assets and/or expected project income that meet the conditions for collateral or pledge be provided as security for the loan. The lender may also, if necessary, require the project sponsor to pledge their shares in the project company as collateral for the loan. The lender may agree with the borrower to insure the project with commercial insurance.

If the lender considers that a project financing credit loan is feasible, a prudent evaluation of the risks shall be carried out, ensuring that the risks are manageable, and sufficient explanation shall be provided in the risk assessment report.

Article 50 The lender shall take measures to effectively reduce and diversify the various risks during the construction and operational phases of the financing project. The lender shall require the borrower or, through the borrower, require project-related parties to sign a general contracting agreement and provide performance bonds, among other measures, to minimize construction phase risks. The lender may also require the borrower to sign long-term supply and sales contracts, use financial derivatives, or have the sponsor provide guarantees for funding gaps, effectively dispersing operational phase risks.

Article 51 The lender may provide financial advisory services for the project, design a comprehensive financial service plan, combine various financing tools, and broaden project funding sources to effectively diversify risks.

Article 52 The lender shall require the borrower to set up a dedicated project revenue account, into which all project income must be deposited. The lender shall also establish conditions for payments from the account, as agreed in advance. The lender must dynamically monitor the project revenue account and, if there are any irregularities in the account's cash flow, promptly investigate the cause and take appropriate actions.

Article 53 If multiple banking financial institutions are involved in the same project financing, the syndicated loan method should be adopted in principle to avoid duplicate financing or over-financing. When adopting a syndicated loan, the lender must comply with relevant regulatory provisions for syndicated loans.

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Article 53 If multiple banking financial institutions are involved in the same project financing, the syndicated loan method should be adopted in principle to avoid duplicate financing or over-financing. When adopting a syndicated loan, the lender must comply with relevant regulatory provisions for syndicated loans.

Chapter 8 Legal Responsibilities

Article 54 If a lender violates the provisions of these measures in engaging in fixed asset loan business, the National Financial Supervisory Administration and its dispatched agencies shall order the lender to rectify within a specified period. The National Financial Supervisory Administration and its dispatched agencies may, in accordance with the **Banking Supervision Law of the People's Republic of China**, take relevant regulatory measures if the lender exhibits any of the following situations:

1. Deficiencies in the fixed asset loan business process;
2. Failure to assign responsibility for each stage of loan management to specific departments and positions as required by these measures;

3. Dereliction of duty in loan investigation, risk evaluation, or post-loan management;
4. Failure to continuously and effectively monitor the borrower and the project's operating situation as stipulated in these measures.

Article 55 If the lender exhibits any of the following situations, the National Financial Supervisory Administration and its dispatched agencies may, in accordance with the **Banking Supervision Law of the People's Republic of China**, take relevant regulatory measures or impose penalties:

1. Accepting and issuing loans for fixed asset loan applications that do not meet the required conditions;
2. Colluding with the borrower to illegally issue fixed asset loans;
3. Exceeding, or disguised exceeding, their authority or failing to follow prescribed procedures in loan approval;
4. Failing to sign a loan contract as required by these measures;
5. Issuing loans before the project's capital contribution matches the loan's proportion as stipulated;
6. Failing to manage and control loan funds payment according to these measures;
7. Not taking effective measures against significant borrower defaults;
8. Engaging in other serious violations of these provisions.

Chapter 9 Supplementary Provisions

Article 56 The National Financial Supervisory Administration and its dispatched agencies may, based on the lender's management practices, risk levels, and the conduct of fixed asset loan business, impose related prudent regulatory requirements for the management of fixed asset loans.

Article 57 Loans secured by intellectual property rights such as patents, copyrights, or other intangible assets such as mining rights may, based on the characteristics of the loan project, its operating model, and other factors, follow the provisions of these measures or apply the relevant management guidelines for working capital loans.

Article 58 If the National Financial Supervisory Administration has specific provisions regarding real estate loans or other special types of loans, those provisions shall prevail.

Article 59 Fixed asset loans issued by the China Development Bank, policy banks, and non-bank financial institutions established with the approval of the National Financial Supervisory Administration may refer to these measures for implementation.

Article 60 Lenders should formulate detailed rules and operational procedures for fixed asset loan management in accordance with these measures.

Article 61 These measures shall be interpreted by the National Financial Supervisory

Administration.

Article 62 These measures shall come into effect on July 1, 2024. The **Interim Measures for Fixed Asset Loan Management** (Order No. 2 of the China Banking Regulatory Commission, 2009), the **Guidelines for Project Financing Business** (CBRC Document No. 71, 2009), the **Notice of the China Banking Regulatory Commission on Standardizing Repayment Methods for Medium and Long-Term Loans** (CBRC Document No. 103, 2010), and the **Notice of the General Office of the China Banking Regulatory Commission on Strictly Implementing the 'Interim Measures for Fixed Asset Loan Management', 'Interim Measures for Working Capital Loan Management', and 'Guidelines for Project Financing Business'** (CBRC General Office Document No. 53, 2010) are hereby repealed.

Measures for the Administration of Working Capital Loans

(Notice No. 2 of 2024, State Financial Supervision and Administration Commission)

Chapter I General Provisions

Article 1 In order to regulate the operational behavior of working capital loan business by banking financial institutions, strengthen prudent management of working capital loans, and promote the healthy development of such business, these measures are formulated based on the **Banking Regulatory Law of the People's Republic of China**, the **Commercial Banking Law of the People's Republic of China**, and other relevant laws and regulations.

Article 2 The term "banking financial institutions" (hereinafter referred to as "lenders") in these measures refers to financial institutions that accept public deposits and are established within the territory of the People's Republic of China, including commercial banks, rural cooperative banks, rural credit cooperatives, and other similar institutions.

Article 3 The term "working capital loan" in these measures refers to loans provided by lenders to legal or non-legal entities (excluding entities that are prohibited from receiving bank loans according to relevant national regulations) for the purpose of financing the borrower's daily operational turnover. These loans can be denominated in both domestic and foreign currencies.

Article 4 Lenders engaging in working capital loan business must adhere to the principles of legality and compliance, prudent operation, equality and voluntariness, and fairness and integrity.

Article 5 Lenders shall improve their internal control mechanisms, implement full-process loan management, comprehensively understand client information, establish working capital loan risk management systems, and effective job checks and balances. Responsibilities for various stages of loan management should be allocated to specific departments and positions, and performance evaluation and accountability mechanisms should be put in place for each position.

Article 6 Lenders shall prudently assess the working capital needs of borrowers, determine the total credit limit for working capital loans and individual loan amounts in a

cautious manner, and ensure that these amounts do not exceed the actual needs of the borrower. Lenders should set business types and loan durations for working capital loans in a reasonable manner based on the borrower's business scale and cycle characteristics to meet the borrower's operational funding needs and effectively control the repayment of loan funds.

Article 7 Lenders shall integrate working capital loans into the unified credit management of borrowers and their group clients, and establish risk limit management systems based on actual risk management needs.

Article 8 Lenders shall reasonably determine internal performance evaluation indicators based on the economic operating conditions, industry development patterns, and the borrower's valid credit needs, and shall not set unreasonable loan scale targets or engage in vicious competition and rush lending.

Article 9 Lenders shall agree with borrowers on clear and legal loan purposes. Working capital loans shall not be used for shareholders' dividends, investments in financial assets, fixed assets, equities, and other similar purposes; nor for production or business activities in fields and uses prohibited by the state.

For loans to local financial organizations, other provisions shall apply.

Article 10 The misappropriation of working capital loans is prohibited. Lenders shall inspect and supervise the use of working capital loans in accordance with contractual agreements.

Article 11 The term for a working capital loan shall generally not exceed three years. For borrowers with a longer cash flow recovery cycle, the loan term may be extended appropriately, but it shall not exceed five years.

Article 12 The interest rate for working capital loans shall follow the principle of market-based interest rates and be determined through negotiation between the lender and the borrower, provided that both parties comply with relevant national regulations.

Article 13 The State Financial Supervision and Administration Commission and its local branches shall supervise and regulate the working capital loan business in accordance with the law.

Chapter II Acceptance and Investigation

Article 14 The following conditions must be met for a working capital loan application to be accepted:

1. The borrower must be legally registered with the market supervision and regulatory authorities.
2. The loan purpose must be clear and legal.
3. The borrower must operate legally and in compliance with regulations.
4. The borrower must have the ability to continue operations and a legitimate repayment source.

5. The borrower must have a good credit standing.
6. Any other conditions required by the lender.

Article 15 The lender shall specify the requirements for the form and content of the working capital loan application materials, and require the borrower to adhere to the principles of honesty and integrity, ensuring that the materials provided are true, complete, and valid.

Article 16 The lender shall carry out due diligence through both on-site and off-site methods, preparing a written report and taking responsibility for the authenticity, completeness, and validity of the contents.

For working capital loans to micro and small enterprises, the lender may, through off-site methods, effectively verify the authenticity of relevant information, and based on this, assess the borrower's risk. In such cases, the lender may simplify or even skip on-site investigations.

The lender shall, based on its risk management capabilities, prudently set the maximum loan amount for which off-site investigation can replace on-site investigation, considering factors such as the region, industry, and type of loan for micro and small enterprises.

Due diligence includes but is not limited to the following:

1. The borrower's organizational structure, corporate governance, internal controls, and the credit status of the legal representative and management team.
2. The borrower's business scope, core operations, business operations, operational plans during the loan period, and major investment plans.
3. The status of the borrower's industry.
4. The borrower's actual financial status, including accounts receivable, accounts payable, inventory, and other relevant information.
5. The borrower's total working capital demand and existing financing liabilities.
6. The borrower's related parties and related transactions.
7. The specific use of the loan, including the funding occupation by transaction counterparties related to the loan.
8. Sources of repayment, including cash flow from operations, comprehensive income, and other legal income.
9. For secured working capital loans, the lender must investigate the ownership, value, liquidity, or the qualifications and capabilities of the guarantor.

Chapter III Risk Assessment and Approval

Article 17 Lenders shall establish and improve a risk assessment mechanism, assign specific departments and positions responsible for risk review, and thoroughly assess the risk factors associated with working capital loans.

Article 18 Lenders shall establish and improve an internal rating system, adopting scientific and reasonable rating and credit assessment methods to evaluate the credit ratings of clients and maintain a credit record for each client.

Article 19 Lenders shall calculate the borrower's working capital requirements based on factors such as the borrower's business scale, business characteristics, and funding cycle (example calculation methods are provided in the attachment) and determine the loan structure reasonably, including the loan amount, term, interest rate, collateral, and repayment method.

Lenders may, based on actual needs, develop different calculation methods for different types of borrowers and periodically evaluate and adjust these methods.

For loans to micro and small enterprises, lenders may assess the borrower's working capital needs through alternative methods.

Article 20 Lenders shall establish a standardized working capital loan review system and process based on the principles of loan review separation and tiered approval to ensure the independence of risk assessment and credit approval.

Lenders shall establish and improve internal approval authorization and re-authorization mechanisms. Approving personnel shall approve loans within their authorized scope and follow prescribed procedures, and shall not approve loans beyond their authority.

Article 21 When lenders provide working capital loans to shareholders or other related parties, they must strictly adhere to relevant regulatory provisions on related-party transactions. The terms of the loan shall not be more favorable than those for general borrowers, and this should be disclosed in the risk assessment report.

Chapter IV Contract Signing

Article 22 Lenders shall enter into written loan contracts and other relevant agreements with borrowers and other parties involved, and if a guarantee is required, a guarantee agreement or provisions shall also be signed.

Article 23 Lenders shall clearly specify in the loan contract the loan amount, term, interest rate, use of funds, payment method, and repayment method.

For working capital loans with a term exceeding one year, both parties should, based on negotiation, implement a principal repayment schedule in installments, and prudently agree on the amount to be repaid in each installment.

Article 24 The "payment terms" mentioned in the previous article include, but are not limited to, the following:

1. The method of payment for the loan funds and the amount standards entrusted to the lender for payment;
2. Conditions under which the payment method may change;
3. Restrictions on the use of loan funds, including prohibited actions;

4. The borrower's obligation to promptly provide records and documentation related to the use of loan funds.

Article 25 Lenders shall require borrowers to make commitments in the contract regarding important matters related to the loan, including but not limited to:

1. Providing true, complete, and valid materials to the lender in a timely manner;
2. Cooperating with the lender in loan payment management, post-loan management, and related inspections;
3. Obtaining the lender's consent before engaging in major events that may affect the borrower's repayment ability, such as mergers, spin-offs, equity transfers, external investments, provision of guarantees, or substantial increases in debt financing;
4. The lender's right to recall the loan in advance based on the borrower's cash flow situation;
5. Notifying the lender promptly in the event of significant adverse events affecting the borrower's repayment ability.

Article 26 Lenders and borrowers shall agree in the contract that, in the event of any of the following circumstances, the borrower shall bear the breach of contract liability, and the lender may take measures such as early loan recall, adjusting the payment method, adjusting the interest rate, charging penalty interest, reducing the credit limit, or suspending or halting loan disbursement, and pursue corresponding legal responsibilities:

1. Failure to use the loan for the agreed purposes;
2. Failure to pay the loan funds according to the agreed method;
3. Failure to comply with the commitments made;
4. Exceeding agreed financial indicators;
5. Occurrence of significant cross-default events;
6. Violation of other provisions of the loan contract.

Chapter V Loan Disbursement and Payment

Article 27 Lenders shall establish independent departments or positions responsible for the review of the disbursement and payment of working capital loans.

Article 28 Before disbursing the loan, lenders must confirm that the borrower meets the drawdown conditions stipulated in the contract. The loan funds should be managed and controlled according to the method agreed upon in the contract, either by the lender's entrusted payment or by the borrower's independent payment. Lenders shall improve the payment control system for loan funds, strengthen the application of financial technology, and effectively supervise the use of the loan funds for the intended purposes as agreed

in the contract.

Entrusted Payment by Lender refers to the lender making payments to the borrower's trading counterpart based on the borrower's drawdown application and payment authorization, ensuring the funds are used for the purposes stipulated in the contract.

Borrower's Independent Payment refers to the lender disbursing the loan funds to the borrower's account, after which the borrower makes the payment to the trading counterpart independently, in accordance with the agreed contract purposes.

Article 29 Lenders shall reasonably determine the loan payment methods and the amounts to be entrusted to the lender based on factors such as the borrower's industry characteristics, business scale, management level, credit status, and the type of loan business.

Article 30 The following types of working capital loans must adopt the entrusted payment method:

1. Loans where a new credit relationship is established with the borrower and the borrower has an average credit status;
2. Payments with clear recipients, where a single payment exceeds RMB 10 million to a specific borrower's trading counterpart;
3. Other situations as determined by the lender.

Article 31 For loans using entrusted payment, the lender shall review the payment application submitted by the borrower to verify if the payees, payment amounts, and other information align with the relevant business contracts or other supporting documents. Once approved, the lender shall transfer the loan funds to the borrower's trading counterpart through the borrower's account.

For borrowers with a good record of fund usage, if there is a reasonable and urgent fund usage requirement within the scope of the agreed contract, the lender may simplify the pre-payment documentation and processes after conducting an evaluation, and complete the post-payment review promptly after disbursement.

Article 32 For loans using the borrower's independent payment method, the lender shall require the borrower to periodically report on the loan payment status according to the terms of the loan contract. The lender should monitor and verify whether the loan funds are used for the agreed purposes and whether the borrower attempts to bypass entrusted payment by fragmenting the loan payments.

Article 33 During the loan disbursement or payment process, if the borrower exhibits any of the following situations, the lender should negotiate with the borrower to supplement the loan disbursement and payment conditions or, based on the contract, change the payment method, suspend or halt the disbursement and payment of loan funds:

1. A decline in credit status;
2. A significant deterioration in business or financial status;

3. Abnormal use of loan funds or attempts to bypass entrusted payment;
4. Other major breaches of the contract.

Chapter VI Post-Loan Management

Article 34 Lenders shall strengthen the monitoring of the borrower's misappropriation of loan funds. If the borrower is found to have misused loan funds, the lender should take appropriate measures as per the contract, including requiring the borrower to rectify the situation, repay the loan early, or adjust the loan risk classification.

Article 35 Lenders shall strengthen the management of loan funds after disbursement. Based on the borrower's industry and business characteristics, they should conduct regular and ad-hoc onsite inspections and offsite monitoring to analyze the borrower's operational, financial, credit, payment, guarantee, and financing status, and to assess any factors that may affect the borrower's ability to repay.

For businesses with simplified or no onsite investigation, post-loan field inspections should be conducted in an appropriate proportion.

Article 36 Lenders shall require borrowers, through the loan contract, to designate a special account for loan repayment and provide timely records of the inflow and outflow of funds from that account. Based on the borrower's credit status, financing situation, etc., lenders may negotiate with the borrower to sign an account management agreement that clearly defines the management of the funds' inflow and outflow from the designated account.

Lenders should focus on large and abnormal inflows and outflows and strengthen monitoring of the repayment accounts.

Article 37 Lenders shall dynamically monitor the borrower's major early warning signals related to business, management, financial, and fund flow status. Based on the contract, the lender should promptly take measures such as early loan recall, requesting additional guarantees, or other effective actions to mitigate loan risks.

Article 38 Lenders shall assess the alignment between the loan business type, amount, term, and the borrower's business condition and repayment ability as the basis for future cooperation. If necessary, the lender should adjust the cooperation strategy and content with the borrower in a timely manner.

Article 39 Lenders shall, in accordance with legal regulations and the loan contract, participate in major borrower activities such as large-scale financing, asset sales, mergers, spin-offs, equity restructuring, and bankruptcy liquidation, in order to protect the lender's creditor rights.

Article 40 When a borrower applies for a loan extension, the lender should carefully assess the reasons for the extension and the feasibility of the proposed repayment plan. If the extension is approved, the lender should reasonably determine the extension term based on the borrower's repayment source and situation, and strengthen the subsequent loan management, categorizing risks based on the actual situation.

For loans with a term of one year or less, the total extension period should not exceed the original loan term; for loans exceeding one year, the total extension period should not exceed half of the original loan term.

Article 41 Lenders shall recover the loan principal and interest in accordance with the loan contract terms. For loans that are not repaid as per the contract, lenders shall take actions such as collection, restructuring agreements, debt transfer, or write-off to handle the loan.

Chapter VII: Legal Liability

Article 42

If a lender violates the provisions of these measures in operating the working capital loan business, the National Financial Regulatory Administration and its branches shall order the lender to make corrections within a specified period. If the lender has any of the following situations, the National Financial Regulatory Administration and its branches may take relevant regulatory measures according to the "Law of the People's Republic of China on Banking Supervision and Administration":

1. Deficiencies in the working capital loan business process;
2. Failure to assign responsibilities for loan management to specific departments and positions;
3. Failure to perform due diligence in loan investigation, risk assessment, and post-loan management.

Article 43

If the lender has any of the following situations, the National Financial Regulatory Administration and its branches may take relevant regulatory measures or impose penalties according to the "Law of the People's Republic of China on Banking Supervision and Administration":

1. Granting loans by lowering credit conditions or exceeding the actual funding needs of the borrower;
2. Failing to sign a loan agreement as required by these measures;
3. Colluding with the borrower or participating in issuing loans based on fictitious trade backgrounds;
4. Allowing the borrower to use working capital loans for purposes such as shareholder dividends, financial asset investments, fixed asset investments, equity investments, or in fields and purposes prohibited by the state;
5. Approving loans beyond or in a disguised manner exceeding their authority;
6. Failing to manage and control loan fund payments as required by these measures;

7. Failing to take effective measures against serious breaches of contract by the borrower;
8. Other serious violations of the prudent business rules prescribed by these measures.

Chapter VIII: Supplementary Provisions

Article 44

The National Financial Regulatory Administration and its branches may impose relevant prudential supervision requirements on the lender's management of working capital loans based on factors such as the lender's business management, risk level, and the status of working capital loan operations.

Article 45

Loans secured by intellectual property rights, such as patents and copyrights, or other intangible assets such as mining rights, may apply these measures, or be managed according to relevant fixed asset loan management measures based on the specific characteristics and operation modes of the loan project.

Article 46

For fixed asset financing needs of less than 500,000 RMB, these measures may be followed.

Article 47

For internet loans, auto loans, and other special loans, if there are specific provisions by the National Financial Regulatory Administration, those provisions shall apply.

Article 48

Working capital loans issued by the China Development Bank, policy banks, and non-bank financial institutions approved by the National Financial Regulatory Administration may follow these measures.

Article 49

Lenders shall formulate detailed implementation rules and operational procedures for working capital loan management based on these measures.

Article 50

These measures shall be interpreted by the National Financial Regulatory Administration.

Article 51

These measures shall take effect on July 1, 2024. The "Interim Measures for the Management of Working Capital Loans" (Order No. 1 of 2010, China Banking Regulatory Commission) shall be repealed at the same time.

Annex: Example of Calculation of Working Capital Loan Demand

The working capital loan demand should be determined based on the difference between the borrower's daily operating turnover working capital and the existing working capital (i.e., the working capital gap). Generally speaking, the key factors influencing working capital demand include inventory (raw materials, semi-finished products, finished products), cash, receivables, and payables. In addition, factors such as the borrower's industry, scale, development stage, and negotiation position also play an important role. Banking financial institutions, based on the borrower's financial reports and business development forecasts, should estimate the working capital loan demand as follows:

1. Estimating the Borrower's Working Capital

Factors influencing the borrower's working capital include cash, inventory, receivables, payables, pre-received accounts, pre-paid accounts, etc. Based on investigation, changes in the turnover time for each item should be forecasted to reasonably estimate the borrower's working capital. In actual calculations, the borrower's working capital demand can be estimated using the following formula:

Working Capital = Last Year's Sales × (1 - Last Year's Profit Margin) × (1 + Expected Sales Growth Rate) / Working Capital Turnover Times

Where:

Working Capital Turnover Times = 360 / (Inventory Turnover Days + Receivables Turnover Days - Payables Turnover Days + Prepaid Receivables Turnover Days - Prepaid Payables Turnover Days)

Turnover Days = 360 / Turnover Times

Receivables Turnover Times = Sales / Average Receivables

Prepaid Receivables Turnover Times = Sales / Average Prepaid Receivables

Inventory Turnover Times = Cost of Sales / Average Inventory

Prepaid Payables Turnover Times = Cost of Sales / Average Prepaid Payables

Payables Turnover Times = Cost of Sales / Average Payables

2. Estimating the Additional Working Capital Loan Amount

The additional working capital loan amount can be estimated by subtracting the borrower's own funds, existing working capital loans, and other financing from the estimated working capital demand.

Additional Working Capital Loan = Working Capital - Borrower's Own Funds - Existing Working Capital Loan - Other Sources of Operating Capital

3. Other Factors to Consider

1. Banking financial institutions should reasonably forecast the borrower's turnover days for receivables, inventory, and payables, based on actual situations and future development factors (such as the borrower's industry, scale, development stage, and negotiation position), and may consider an insurance factor.
2. For group-related clients, the working capital loan amount can be estimated using consolidated financial statements. In principle, the total working capital loans for

member enterprises within the consolidated financial statement should not exceed the estimated value.

3. For small and micro enterprises, order financing, prepaid rent, or temporary large debt financing, the loan amount should be determined based on actual transaction needs, ensuring effective control of usage and repayment under the premise of transaction authenticity.
4. For seasonal production borrowers, the calculation period for working capital demand should be based on the continuous production period of each year, and the loan term should be reasonably determined according to the repayment cycle.

Personal Loan Management Measures

(Announcement No. 3 of 2024 by the National Financial Regulatory Administration)

Chapter 1: General Principles

Article 1 In order to regulate the behavior of personal loan business in banking financial institutions, strengthen prudent management of personal loan business, and promote the healthy development of personal loan business, these measures are formulated based on the "Banking Supervision Law of the People's Republic of China," the "Commercial Banking Law of the People's Republic of China," and other relevant laws and regulations.

Article 2 The banking financial institutions referred to in these measures (hereinafter referred to as lenders) are commercial banks, rural cooperative banks, rural credit cooperatives, and other financial institutions that accept public deposits and are established within the territory of the People's Republic of China.

Article 3 The personal loans referred to in these measures are loans in RMB or foreign currencies provided by lenders to eligible individuals for personal consumption, production, operation, or other purposes.

Article 4 Lenders engaging in personal loan business shall adhere to the principles of compliance with laws, prudent management, equality, voluntariness, fairness, and integrity.

Article 5 Lenders shall establish an effective full-process management mechanism for personal loans, formulate loan management systems, and operating procedures for each type of loan. They shall clarify corresponding loan targets and scope, implement differentiated risk management, and establish assessment and accountability mechanisms for each operational step of the loan process.

Article 6 Lenders shall establish a risk limit management system for personal loans based on actual risk management needs.

Article 7 The use of personal loans shall comply with the laws, regulations, and relevant national policies. Lenders shall not issue personal loans without specified purposes. Lenders shall strengthen management of loan fund disbursement to effectively prevent risks in personal loan business.

Article 8 The term of a personal loan shall comply with relevant national regulations. Personal loans for consumption shall not exceed five years; loans for production and operation shall generally not exceed five years. For loans related to business operations with longer cash flow recovery periods, the loan term may be extended appropriately, but not exceeding ten years.

Article 9 The interest rate of personal loans shall follow the principle of market-based interest rates, to be negotiated and determined by both the lender and the borrower, while complying with relevant national regulations.

Article 10 Lenders shall establish a reasonable debt repayment ratio control mechanism for borrowers. Based on factors such as the borrower's income, liabilities, expenditures, loan purposes, and collateral, the lender shall reasonably determine the loan amount and term, ensuring that the borrower's monthly repayment amount does not exceed their repayment capacity.

Article 11 The National Financial Regulatory Administration and its branches shall supervise and manage personal loan business in accordance with the law.

Chapter 2: Acceptance and Investigation

Article 12 The following conditions shall be met for a personal loan application:

1. The borrower must be a Chinese citizen with full civil capacity or a foreign natural person in compliance with national regulations;
2. The loan purpose must be clear and legal;
3. The loan amount, term, and currency must be reasonable;
4. The borrower must have the willingness and ability to repay;
5. The borrower must have a good credit history;
6. Other conditions required by the lender.

Article 13 Lenders shall require borrowers to submit personal loan applications in writing and provide relevant documents proving that they meet the loan conditions.

Article 14 After accepting the loan application, the lender shall perform due diligence duties, verify the authenticity, accuracy, and completeness of the loan application and relevant information, and form an investigative evaluation opinion.

Article 15 The loan investigation includes, but is not limited to, the following:

1. Basic information of the borrower;
2. The borrower's income situation;
3. The loan purpose; if used for production or operation, the borrower's business condition should also be investigated;
4. The borrower's repayment source, repayment ability, and repayment method;

5. The guarantor's willingness, guarantee ability, or the ownership, value, and liquidity of pledged collateral.

Article 16 The loan investigation shall be conducted using a combination of on-site and off-site indirect methods, including on-site verification, telephone inquiry, information consultation, and other digital or electronic investigation methods. For loans of no more than 200,000 RMB, lenders may simplify or waive on-site investigations (except for loans used for personal housing purposes), provided that the authenticity of the information can be verified effectively through off-site indirect investigation.

Article 17 Lenders shall establish and improve their loan investigation mechanism, clarify the methods and procedures for investigating various matters, and ensure the authenticity and effectiveness of the loan investigation.

If lenders delegate certain investigation tasks to third parties, they must ensure that the borrower's legitimate rights are not harmed and that related risks are controllable.

Lenders must specify the qualifications of third parties, establish a list management system, and review and update the list regularly.

Lenders shall not delegate core matters related to the borrower's true intentions, income level, debt status, source of self-owned funds, or external evaluation agency admission to third parties.

Article 18 Lenders shall establish and implement a loan interview system.

Lenders may conduct video interviews with borrowers as needed (except for loans used for personal housing purposes). Video interviews should be conducted on the lender's own platform, with the recordings saved and retained. Lenders shall take effective measures to verify the borrower's identity and the authenticity of the information involved.

Chapter 3: Risk Assessment and Approval

Article 19 Loan review should comprehensively assess the legality, reasonableness, and accuracy of the loan investigation content, with a focus on the diligence of the investigator and the borrower's repayment ability, credit status, guarantee situation, collateral-to-loan ratio, risk level, and other factors.

Article 20 Lenders shall establish and improve their risk assessment mechanism, assigning responsibility for risk evaluation to specific departments and positions. Loan risk assessments should thoroughly analyze the borrower's credit status and repayment ability, paying attention to their income and expenditure, debt repayment situation, and for loans for production and operation, analyzing the borrower's business and risk conditions. Both quantitative and qualitative analysis methods should be adopted to perform a comprehensive, dynamic, and prudent loan risk evaluation. For loans with guarantees, lenders must conduct a full assessment of the borrower's repayment ability before determining the loan amount, term, and other factors solely based on the guarantee.

Lenders should establish and improve a credit risk assessment system for borrowers,

monitoring the borrower's financing situations, and setting up a unified credit management system for individual clients. This system should be adjusted in accordance with business development and risk control needs.

Article 21 Lenders should follow the principle of prudence to improve the authorization management system, standardize the approval process, clarify loan approval authority, and implement a separation of approval and loan granting, ensuring that loan approvals are conducted independently according to the authorization.

For loans approved automatically through online methods, lenders must establish a manual review mechanism as a supplement to the automated approval process and set specific conditions for triggering the manual review. If it is found during post-loan management that automated approval fails to effectively identify risks, lenders must suspend the automated approval process.

Article 22 Business conducted entirely online should comply with relevant regulations on internet loans.

Article 23 Lenders should inform the borrower of any personal loan application that has not been approved.

Article 24 Lenders should evaluate and analyze the loan approval process in response to significant changes in the economic situation, an obvious rise in default rates, or other abnormal circumstances, and adjust approval policies in a timely and targeted manner to strengthen the management of relevant loans.

Article 25 When processing personal loans for shareholders or other related parties, lenders must strictly adhere to the relevant regulatory provisions for related-party transactions. The loan conditions must not be more favorable than those for general borrowers, and this should be explained in the risk assessment report.

Chapter 4: Agreements and Disbursement

Article 26 Lenders shall sign a written loan contract with the borrower. If collateral is required, a separate guarantee contract or clause must also be signed. Lenders should require the borrower to sign the loan contract and other related documents in person. For loans not exceeding 200,000 RMB, the relevant contract and documents may be signed via electronic banking channels (excluding loans for personal housing purposes).

When signing in person, the lender must record the signing process with audio and video and retain the recordings properly.

Article 27 The loan contract shall comply with the "Civil Code of the People's Republic of China" and other legal provisions, clearly stipulating the parties' integrity commitments, the purpose of the loan funds, payment recipients (scope), payment amounts, conditions, and methods.

The contract shall specify that the borrower must bear the consequences for breach of contract or failure to perform, and the lender may take actions such as recalling the loan early, adjusting the loan payment method, changing the loan interest rate, charging

penalty interest, reducing the credit limit, or stopping or suspending loan disbursement, and pursue corresponding legal responsibilities.

Article 28 Lenders should establish and improve contract management systems to effectively prevent legal risks related to personal loans. If the loan contract uses standard terms, the borrower's legal rights must be protected, and the terms should be publicly disclosed.

Article 29 Lenders shall follow the relevant provisions of the "Civil Code of the People's Republic of China" and other laws and regulations to standardize the guarantee process and operations.

If collateral registration is required by the contract, the lender must be involved. If third parties are entrusted to handle the registration, the lender must verify the collateral registration status.

Article 30 Lenders shall strengthen the management of loan disbursement, following the principle of separation between loan approval and disbursement. An independent loan disbursement department or position should be set up to ensure the disbursement of personal loans that meet the agreed conditions.

Article 31 After the loan contract becomes effective, the lender shall disburse the loan in a timely manner according to the contract terms.

Chapter 5: Payment Management

Article 32

The lender shall manage and control the payment of loan funds in accordance with the terms specified in the loan agreement, either by trustee payment or borrower's self-payment. The lender should establish and improve the payment control system for loan funds, strengthen the application of financial technology, and effectively supervise the use of loan funds according to the agreed-upon purposes.

- Trustee payment refers to the lender paying the loan funds to the borrower's transaction counterparty in accordance with the borrower's withdrawal request and payment authorization, ensuring the payment is for the agreed purpose as stated in the contract.
- Borrower's self-payment refers to the lender releasing the loan funds directly to the borrower's account, and the borrower is responsible for paying the transaction counterparty.

Article 33

Loan funds for personal loans should be paid to the borrower's transaction counterparty through trustee payment by the lender, except in circumstances specified in Article 36.

Article 34

For loans with trustee payments, the lender should require the borrower to submit a payment request when using the loan and authorize the lender to pay the loan funds in accordance with the terms of the loan agreement.

Before payment, the lender should verify the borrower's relevant transaction documents and certificates to ensure compliance with the terms of the loan agreement, and record the details after payment.

For borrowers with a good record of loan fund usage within the agreed purpose for production and operation, in cases of reasonable urgent funding needs, and when the lender assesses the risk as controllable, the lender may simplify the required pre-payment documentation and process, and complete post-payment review promptly.

Article 35

After completing the trustee payment, the lender should record the flow of funds in detail and retain the relevant certificates.

Article 36

In the following circumstances, the borrower may make self-payments with the lender's consent:

1. The borrower cannot determine the specific transaction counterparty in advance, and the single withdrawal amount does not exceed RMB 300,000;
2. The borrower's transaction counterparty is unable to effectively use non-cash settlement methods;
3. Loan funds are used for production and operation, and the single withdrawal amount does not exceed RMB 500,000;
4. Other circumstances specified by laws and regulations.

Article 37

When the borrower opts for self-payment, the lender shall agree in advance in the loan contract that the borrower must report or notify the lender of the payment status of loan funds periodically.

The lender should verify whether the payment complies with the agreed-upon purpose through account analysis, voucher verification, or on-site investigation, and check whether there is any attempt to circumvent trustee payment by splitting the loan.

Article 38

If the borrower's credit status declines, or there are irregularities in the use of the loan funds or violations of the contract, such as attempts to circumvent trustee payment by splitting the loan, the lender should negotiate with the borrower to modify the loan disbursement and payment terms, or, according to the loan agreement, alter the loan payment method, suspend, or terminate the disbursement of loan funds.

Chapter 6: Post-Loan Management

Article 39

After the payment of a personal loan, the lender shall take effective measures to track and monitor the use of loan funds, changes in the borrower's credit and collateral status, etc., to ensure the safety of the loan assets.

The lender should strengthen the monitoring of any misappropriation of loan funds by the

borrower. If the lender discovers that the borrower has misappropriated the loan funds, the lender should take corrective actions in accordance with the contract, including requiring the borrower to rectify, repay the loan early, or adjust the loan risk classification.

Article 40

The lender should distinguish between different types, objects, and amounts of personal loans, and determine the appropriate methods, content, and frequency of loan inspections. For business that simplifies or no longer conducts on-site investigations, the lender should implement post-loan on-site inspections in an appropriate proportion. The lender's internal audit and other departments should conduct spot checks and evaluate the work quality of the loan inspection functions.

Article 41

The lender should regularly track, analyze, and assess the borrower's fulfillment of the loan contract and use this as the basis for credit evaluation in future cooperation with the borrower.

Article 42

The lender shall pursue breach of contract responsibilities for the borrower's failure to provide true and complete information, or failure to use and pay the loan according to the contract and agreed-upon purposes, in accordance with applicable laws, regulations, and the loan contract.

Article 43

When a borrower applies for an extension of the loan, the lender should prudently evaluate the reasons for the extension and the feasibility of the subsequent repayment arrangements. If the extension is approved, the lender should reasonably determine the extension period based on repayment sources and other circumstances and strengthen the subsequent management of the loan, categorizing the risk according to the actual risk status.

- For loans with an original term of one year or less, the total extension period shall not exceed the original loan term;
- For loans with an original term exceeding one year, the total extension period shall not exceed half of the original loan term.

Article 44

The lender shall collect the principal and interest of the loan according to the loan contract.

For loans that are not repaid as agreed in the loan contract, the lender should take measures such as collection, agreement restructuring, debt transfer, or write-off.

Chapter 7: Legal Liabilities

Article 45

If a lender violates the provisions of these regulations in handling personal loan business, the National Financial Supervision and Administration Commission and its local agencies shall order the lender to correct the violations within a specified time. In any of the

following circumstances, the National Financial Supervision and Administration Commission and its local agencies may take relevant supervisory actions under the *Banking Supervision and Administration Law of the People's Republic of China*:

1. Failure to perform due diligence in loan investigation, review, or post-loan management;
2. Failure to establish or implement a loan interview or loan contract signing system as required;
3. Failure to disclose standard terms in the loan contract;
4. Violation of the provisions of Article 30 of these regulations;
5. Non-compliance with payment management requirements specified in these regulations.

Article 46

If a lender commits any of the following actions, the National Financial Supervision and Administration Commission and its local agencies may take relevant supervisory actions or impose penalties in accordance with the *Banking Supervision and Administration Law of the People's Republic of China*:

1. Issuing personal loans that do not meet the qualification requirements;
2. Signing loan contracts that do not comply with these regulations;
3. Violating the provisions of Article 7 of these regulations;
4. Outsourcing core risk control matters of loan investigation to third parties;
5. Approving loans beyond the lender's authority or in a disguised manner;
6. Inducing the borrower to fabricate circumstances to obtain the loan;
7. Failing to take effective measures against the borrower's serious default;
8. Any other serious violations of prudent business practices as outlined in these regulations.

Chapter 8: Supplementary Provisions

Article 47

The National Financial Supervision and Administration Commission and its local agencies may, based on the lender's business management, risk level, and the development of personal loan business, impose relevant prudential supervisory requirements on the lender's personal loan management.

Article 48

Personal loans issued by the China Development Bank, policy banks, and non-bank financial institutions established with approval from the National Financial Supervision and Administration Commission may follow the provisions of these regulations.

Article 49

The National Financial Supervision and Administration Commission has specific provisions for certain special types of loans, such as internet loans, personal housing loans, personal student loans, and personal car loans. These special types of loans are governed by the respective regulations.

Personal loans issued by banking financial institutions to farmers for production purposes and other special personal loans specified by national policies are not subject to these regulations.

Credit card overdrafts are not subject to these regulations.

Article 50

Lenders shall formulate detailed rules and operational procedures for personal loan business management in accordance with these regulations.

Article 51

These regulations are interpreted by the National Financial Supervision and Administration Commission.

Article 52

These regulations shall take effect on July 1, 2024, and the *Interim Measures for the Management of Personal Loans* (Order No. 2, 2010, of the China Banking Regulatory Commission) shall be simultaneously repealed.

Announcement on the Corporate Income Tax Policy for the Digital and Intelligent Upgrading of Energy-Saving, Water-Saving, Environmental Protection, and Safety Production Equipment

(Ministry of Finance and State Taxation Administration Announcement No. 9 of 2024)

In accordance with the "Notice of the State Council on Issuing the Action Plan for Promoting Large-Scale Equipment Renewal and the Recycling of Consumer Goods" (Guo Fa [2024] No. 7), the following corporate income tax policy is announced regarding the digital and intelligent upgrading of energy-saving, water-saving, environmental protection, and safety production special equipment (hereinafter referred to as "special equipment"):

1. For enterprises that incur expenses for the digital and intelligent upgrading of special equipment from January 1, 2024, to December 31, 2027, an amount not exceeding 50% of the original tax base when the equipment was purchased may be credited against the enterprise's annual taxable amount at a rate of 10%. If the enterprise's taxable amount in the year is insufficient for the credit, the unused credit may be carried forward to subsequent years, but the carry-forward period shall not exceed five years.

2. The "special equipment" referred to in this announcement refers to equipment purchased and actually used by enterprises that is included in the "Catalogue of Special Equipment for Safety Production Corporate Income Tax Incentives (2018 Edition)" (Cai Shui [2018] No. 84), and the "Catalogue of Special Energy-Saving, Water-Saving, and Environmental Protection Equipment for Corporate Income Tax Incentives (2017 Edition)" (Cai Shui [2017] No. 71), issued by the Ministry of Finance, the State Taxation

Administration, the Ministry of Emergency Management, the National Development and Reform Commission, the Ministry of Industry and Information Technology, and the Ministry of Environmental Protection. The equipment, after upgrading, must still meet the conditions specified in the aforementioned catalog. If the catalog is updated, the updated regulations shall apply.

3. The "digital and intelligent upgrading of special equipment" refers to the use of information technology and digital technology to improve and optimize the special equipment to enhance its digital and intelligent capabilities. Specific aspects include:

- **Data Collection:** Using sensors, automatic identification, system reading, industrial control data analysis, etc., to convert the performance parameters, operating conditions, and environmental conditions of the equipment into digital form, enabling the monitoring and collection of information from the special equipment.
- **Data Transmission and Storage:** Using network connections, protocol conversion, data storage, etc., to transmit and store the collected data, ensuring the effective aggregation of data from special equipment.
- **Data Analysis:** Using data calculation, statistical analysis, modeling, and simulation to conduct in-depth analysis of the collected data, improving equipment fault diagnosis, predictive maintenance, and optimization of operation.
- **Intelligent Control:** Upgrading monitoring alarms, dynamic parameter adjustment, feedback control, etc., through automation and intelligent technologies to enable intelligent control of the equipment.
- **Digital Security and Protection:** Strengthening the confidentiality and integrity of the equipment's data through encryption, vulnerability scanning, permission control, redundancy backup, etc., and improving the ability to prevent risks related to data and network security.
- ****Other digital and intelligent upgrading scenarios specified by the Ministry of Finance, State Taxation Administration, and departments of science, industry, and information technology.**

4. The investment eligible for tax credits under this announcement refers to the expenditures incurred by the enterprise for the digital and intelligent upgrading of special equipment that form the fixed asset value of the equipment. This does not include VAT refunds or expenses for transportation, installation, and commissioning of the equipment.

5. The "taxable amount for corporate income tax" referred to in this announcement is the enterprise's annual taxable income multiplied by the applicable tax rate, after deducting any reductions or exemptions in accordance with the Corporate Income Tax Law and relevant tax policies.

6. Enterprises applying for the tax benefits under this announcement must use the upgraded special equipment themselves. If the equipment is transferred or leased within

five tax years after the completion of the upgrading, the enterprise must stop enjoying the tax benefits in the month the equipment ceases to be used, and repay any previously credited corporate income tax.

7. For enterprises that lease special equipment through financing leases, where ownership of the equipment is transferred to the lessee at the end of the lease term, the lessee can enjoy the tax benefits for the digital and intelligent upgrading of the equipment as specified in this announcement. If ownership is not transferred at the end of the lease, the lessee must stop enjoying the benefits and repay any previously credited corporate income tax.

8. Investment in the digital and intelligent upgrading of special equipment using government subsidy funds is not eligible for credit against the enterprise's taxable income.

9. Enterprises must account separately for the expenses related to the digital and intelligent upgrading of special equipment and accurately classify each expense. If an enterprise upgrades multiple pieces of special equipment within the same tax year, the expenses should be separately categorized by equipment. If the expenses cannot be clearly classified, the enterprise is not eligible for the tax benefits under this announcement.

10. Enterprises claiming tax benefits under this announcement must prepare a digital and intelligent upgrading plan for special equipment in advance, or obtain a technology development or service contract registered with a technical contract registration authority. Relevant documentation must be retained for inspection. If the tax authorities are unable to determine whether the upgrading meets the requirements, they may request an assessment from the local (or above) departments of industry and information technology in cooperation with the science and technology departments.

Issued by:
Ministry of Finance
State Taxation Administration
July 12, 2024

Announcement on Adjusting the Technical Requirements for Energy-Saving and New Energy Vehicles to Enjoy Vehicle and Vessel Tax Incentives (2024)

(Announcement No. 10 of 2024 by the Ministry of Industry and Information Technology, Ministry of Finance, and State Taxation Administration)

To adapt to the development and technological advancements of the energy-saving and new energy vehicle industry, promote energy conservation, and encourage the use of new energy, the following adjustments are made regarding the technical requirements for energy-saving and new energy vehicles that qualify for vehicle and vessel tax incentives, as outlined in the *Notice on Vehicle and Vessel Tax Incentive Policies for Energy-Saving and New Energy Vehicles* (Cai Shui [2018] No. 74):

1. Update of Comprehensive Fuel Consumption Standards for Energy-Saving

Vehicles

The comprehensive fuel consumption limits for energy-saving passenger vehicles, light commercial vehicles, and heavy-duty commercial vehicles in Section 1(1) and 1(2) of Cai Shui [2018] No. 74 have been updated. Detailed requirements are specified in Attachments 1, 2, and 3 of this announcement.

2. Adjustment of New Energy Vehicle Technical Standards

The technical standards for new energy vehicle products mentioned in Section 2(2) of Cai Shui [2018] No. 74 have been adjusted. Specific requirements are provided in Attachment 4 of this announcement.

3. Continued Compliance with Previous Requirements

Other technical requirements for energy-saving and new energy vehicles to qualify for vehicle and vessel tax incentives shall continue to comply with the provisions in Cai Shui [2018] No. 74.

4. Implementation Date and Validity of Previous Announcements

This announcement will be implemented from July 1, 2024. Announcement No. 2 of 2022 by the Ministry of Industry and Information Technology, Ministry of Finance, and State Taxation Administration will be repealed. For applications completed before July 1, 2024, the relevant technical requirements will still follow the provisions of Cai Shui [2018] No. 74 and Announcement No. 2 of 2022. After July 1, 2024, newly applied energy-saving and new energy vehicle models will need to meet the technical requirements specified in this announcement to qualify for the vehicle and vessel tax incentives. Eligible models will be included in the new *Catalogue of Models Qualifying for Vehicle and Vessel Tax Incentives for Energy-Saving and New Energy Vehicles* (hereinafter referred to as the "New Catalogue").

5. Transition to the New Catalogue

Models from the Fourth to Sixty-Fourth batches of the previous catalogue that meet the technical requirements of this announcement will automatically be included in the New Catalogue. Models that do not meet the requirements must complete rectification before July 1, 2024. If the rectified models meet the new requirements, they may apply to be included in the New Catalogue.

6. Policy Continuation for Previous Models

Energy-saving and new energy vehicles included in the Fourth to Sixty-Fourth batches of the previous catalogue, regardless of whether they are transferred, may continue to enjoy vehicle and vessel tax incentives until the New Catalogue is announced.

Issued by:

Ministry of Industry and Information Technology

Ministry of Finance

State Taxation Administration

Date: May 27, 2024

Notice on Tax Policies for Temporary Importation of Goods for Repair in the China (Shanghai) Pilot Free Trade Zone

(Financial and Customs Tax [2024] No. 18)

To Shanghai Municipal Finance Bureau, Shanghai Ecological Environment Bureau, Shanghai Municipal Commission of Commerce, Shanghai Customs, Shanghai Municipal Taxation Bureau, China (Shanghai) Pilot Free Trade Zone Management Committee, China (Shanghai) Pilot Free Trade Zone Lingang New Area Management Committee:

To implement the relevant requirements outlined in the "General Plan for Promoting High-Level Institutional Openness in the China (Shanghai) Pilot Free Trade Zone" (State Council Document [2023] No. 23), the following tax policies for temporary importation of goods for repair in the China (Shanghai) Pilot Free Trade Zone (including Lingang New Area) are hereby issued:

1. Tax Exemption for Temporary Importation of Goods for Repair

Within the customs special supervision areas of the China (Shanghai) Pilot Free Trade Zone (including Lingang New Area) (hereinafter referred to as the pilot zones), goods temporarily allowed to enter from overseas for repair will be subject to bonded processing, and will be exempt from import duties, VAT, and consumption tax when re-exported. If the goods are not re-exported but instead sold domestically, the required import procedures must be completed, and taxes (including import duties, VAT, and consumption tax) will be levied based on the actual state of the goods after repair.

2. Scope of Application

This policy applies only to the following customs special supervision areas within the China (Shanghai) Pilot Free Trade Zone (including Lingang New Area):

- Yangshan Special Comprehensive Bonded Zone
- Shanghai Pudong Airport Comprehensive Bonded Zone
- Shanghai Waigaoqiao Port Comprehensive Bonded Zone
- Shanghai Waigaoqiao Bonded Zone
- Other customs special supervision areas within the China (Shanghai) Pilot Free Trade Zone (including Lingang New Area) approved by the State Council.

3. Scope of Goods for Repair

The scope of goods eligible for repair includes:

1. Goods listed in the repair product catalog for comprehensive bonded zones, formulated by the Ministry of Commerce, Ministry of Ecology and Environment, and General Administration of Customs.
2. Other goods allowed for bonded repair in the customs special supervision areas of the China (Shanghai) Pilot Free Trade Zone (including Lingang New Area) according to relevant regulations.

Except for those goods approved by law, administrative regulations, the State Council, or authorized departments, the repair of goods prohibited from import or export in the pilot zones is not allowed. The repair of goods for dismantling, scrapping, or other prohibited activities is also not allowed.

4. Post-Repair Sales and Disposal

Goods within the scope of the above repair products that meet the import regulatory requirements and are approved for domestic sale may be sold domestically. However, goods that are prohibited from import or restricted from import by the State must be re-exported after repair and cannot be sold domestically. Waste materials, old parts, damaged parts, etc., generated during the repair process should generally be re-exported. If re-export is not possible, these materials must not be sold domestically and should be disposed of in accordance with relevant regulations. If they are solid waste, enterprises must dispose of them in accordance with environmental management regulations.

5. Approval and Administration of Enterprises

Enterprises applying to carry out the above-mentioned repair business in the pilot zones must be approved by the competent authorities, including the customs special supervision area management committee, and other relevant departments such as commerce, ecology, and customs. The list of approved enterprises should be submitted to the Shanghai Municipal Finance Bureau, the Municipal Commission of Commerce, the Municipal Ecological Environment Bureau, the Municipal Taxation Bureau, and Shanghai Customs for filing.

6. Information Management and Compliance

Enterprises benefiting from this policy must establish an information management system that meets customs supervision requirements. The system should track the entire repair process, manage goods under repair, components replaced during the repair process, and waste materials generated from the repair or discarded items.

7. Supplementary Regulations and Oversight

The Shanghai Municipal People's Government, in coordination with the Ministry of Commerce, the Ministry of Ecology and Environment, the General Administration of Customs, the Ministry of Finance, and the State Taxation Administration, will formulate supplementary regulatory plans. These plans will clarify the management of imported repair goods, violation disposal standards, penalties, and other relevant details, which will be issued in conjunction with this notice. At the same time, relevant Shanghai municipal departments should strengthen supervision, prevent and control risks, and promptly investigate violations using information technology and data sharing mechanisms. The relevant departments will also share information regarding enterprises and repair goods that meet the policy measures.

8. Customs Procedures and Supervision

Customs will process temporary importation of goods for repair in the pilot zones according to the bonded repair procedures and enforce supervision accordingly.

This notice will be effective from the date of issuance. No refunds will be given for taxes already paid on imported goods before the issuance of this notice.

Issued by:

Ministry of Finance, Ministry of Ecology and Environment, Ministry of Commerce,
General Administration of Customs, State Taxation Administration

Date: June 27, 2024

Regulations on the Implementation of the Registration Capital Registration System under the Company Law of the People's Republic of China

(State Council Order No. 784)

The "Regulations on the Implementation of the Registration Capital Registration System under the Company Law of the People's Republic of China" have been approved at the 34th executive meeting of the State Council on June 7, 2024, and are hereby promulgated. These regulations will take effect from the date of publication.

Premier: Li Qiang

Date of Issue: July 1, 2024

Article 1

To strengthen the management of company registration capital, standardize shareholders' fulfillment of their capital contribution obligations, ensure the safety of market transactions, and optimize the business environment, these regulations are formulated in accordance with the *Company Law of the People's Republic of China* (hereinafter referred to as the "Company Law").

Article 2

For companies registered before June 30, 2024, if the remaining subscription contribution period for a limited liability company exceeds 5 years after July 1, 2027, it shall adjust its remaining subscription contribution period to within 5 years by June 30, 2027, and record it in the company's articles of association. Shareholders must make full payment of their subscribed contributions within the adjusted period. The promoters of joint-stock companies must pay in full the stock funds subscribed by June 30, 2027.

If the company's production and operations involve national or major public interests, and relevant departments or provincial-level governments express opinions, the State Administration for Market Regulation may allow the company to adhere to its original contribution period.

Article 3

If a company's contribution period or registered capital is significantly abnormal, the company registration authority may analyze the company's business scope, operational status, shareholders' contribution abilities, main projects, and asset size to determine whether the company violates the principles of authenticity and rationality. If so, the company may be required to make timely adjustments in accordance with the law.

Article 4

If a company adjusts shareholders' subscribed and paid capital contributions, methods of contribution, contribution period, or adjusts the number of shares subscribed by promoters, the company must publicly disclose this information through the national enterprise credit information publicity system within 20 working days from the date of the relevant information occurrence. The company must ensure that the disclosed information is truthful, accurate, and complete.

Article 5

The company registration authority will supervise and inspect the public disclosure of subscribed and paid contributions through random selection of inspection objects and randomly assigned law enforcement personnel.

The company registration authority shall strengthen information interconnection and sharing with relevant departments, implement classified supervision based on the company's credit risk status, and enhance the comprehensive application of the classification results.

Article 6

If a company fails to adjust its contribution period or registered capital as required by these regulations, the company registration authority shall order the company to make corrections. If the company fails to make corrections within the prescribed time, the company registration authority shall make a special annotation in the national enterprise credit information publicity system and publicly disclose this information.

Article 7

If a company is de-registered, ordered to close, or revoked, or is listed as abnormal due to being unreachable through its registered address or operating location, and its contribution period or registered capital fails to comply with these regulations and cannot be adjusted, the company registration authority will manage it separately and make a special annotation in the national enterprise credit information publicity system, publicly disclosing this information.

Article 8

If a company, after its business license is revoked, ordered to close, or dissolved, fails to apply for de-registration within 3 years, the company registration authority may announce this through the national enterprise credit information publicity system. The announcement period must be no less than 60 days.

During the announcement period, relevant departments, creditors, and other stakeholders may submit objections to the company registration authority, and the de-registration procedure will be suspended. If there are no objections after the announcement period expires, the company registration authority may de-register the company and make a special annotation in the national enterprise credit information publicity system.

Article 9

If the shareholders or promoters of a company fail to pay their subscribed contributions or

stock funds according to these regulations, or if the company fails to legally disclose relevant information, they will be punished in accordance with the Company Law and the *Interim Provisions on Enterprise Information Disclosure*.

Article 10

The company registration authority shall provide guidance on company adjustments to the contribution period and registered capital, develop specific operation guidelines, optimize the handling process, improve registration efficiency, and enhance the convenience of registration.

Article 11

The State Administration for Market Regulation shall, in accordance with these regulations, formulate detailed implementation measures for the registration capital registration system.

Article 12

Listed companies shall, in accordance with the Company Law and the State Council's regulations, specify the establishment of an audit committee in their articles of association, outlining its composition, functions, and other related matters.

Article 13

These regulations shall take effect from the date of publication.

Fortran News

- On July 21, 2024, Shanghai Fortran Law Firm organized and hosted the practical seminar of the 2024 National Fiscal and Tax Law Faculty Training Course, with partner Ryan Yan and Clara Yang from our firm as the speakers.
- On July 31, 2024, Shanghai Fortran Law Firm was invited to participate in the "2024 Huangpu District Middle School Communist School - Huangpu Law Firm Career Internship Activity," and welcomed high school students from Huangpu District of Shanghai to the firm for their internship activities.