

MEMORANDUM

To : Henk Westerhof - Royal Anthos
From : Jan Holthuis, Li Jiao - Buren
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Date : 24 January, 2018
Re : Report on China Regulatory re Import of Dutch Flower Bulbs (Tulip/Lily)
File : 036278

The report provides a background check on three Chinese importers in Yunnan (hereinafter the "Importers") who are apparently subjected to criminal investigations by the Chinese government for tax evasion. Their bank accounts are reported to be frozen and directors jailed. The Importers have left substantial invoices of Dutch flower bulb exporters unpaid.

We have been requested to analyze the following three Importers:

- Sino (Beijing) Floriculture Co., Ltd (西诺(北京)花卉种业有限公司) (hereinafter "Sino Flor")
- Beijing Clover Seed & Turf Co., Ltd(克劳沃(北京)生态科技有限公司) (hereinafter "Beijing Clover")
- Yunnan Western Moon Trading CO., Ltd (云南西月贸易有限公司) (hereinafter "Western Moon")

This report will cover the following topics:

1. SAIC search into Sino Flor, Beijing Clover and Western Moon;
2. Introduction and summary of the (A) Yunnan and (B) National tax exemption regulatory and (C) the Comparison between these regulations;
3. Recommendations

1. Company searches in Sino Flor, Beijing Clover and Western Moon

(a) Sino Flor

Sino Flor is a company located in Yanqing district, Beijing. Its business scope includes planting and sales of flowers, sales of seeds, and import and export of goods. The registered capital of the company is CNY 50 million, held by five shareholders: Hua Wei (natural person) with 7.5%, Qian Zhenquan (natural person) with 16.5% and three affiliated companies controlled by Qian Zhenquan. Qian Zhenquan is therefore the actual controller of Sino Flor. Sino Flor is currently still under normal operation.

Sino Flor has three subsidiaries in Yunnan Province: Yunnan Sino Floriculture Co., Ltd. (云南西诺花卉种业有限公司), Lijiang Sino Floriculture Co., Ltd (丽江西诺花卉种业有限公司) and Kunming Badisi Flower Supply Chain Management Co., Ltd (昆明芭谛思花卉供应链经营管理有限公司).

All three subsidiaries have "flower growing and selling" and "goods imports" in their business scope, and are currently under normal operation.

Detailed information on Sino Flor is attached as Annex I.

(b) Beijing Clover

Beijing Clover is a state-owned company with many subsidiaries and affiliated companies all over China. It is located in Chaoyang district, Beijing, and mainly engages in sales, scientific development and technical service of seed.

The registered capital of the company is CNY 133.3333 million, held by two entities: National Animal Husbandry Station (全国畜牧总站) (public institution) with 30% and Xinjiang Qinggeda Ecological Investment and Development Group Co., Ltd (新疆青格达生态区投资开发集团有限公司) (state-owned company) with 70%.

It has two subsidiaries in Yunnan province: Kunming Clover Grass Industry Co., Ltd.(昆明克劳沃草业有限公司) and Yunnan Shenzhou Clover Gardening Co., Ltd.(云南神州克劳沃园艺有限公司). The latter's business scope includes sales of flower seed, seedling, bulb; planting and sales of flower, and import and export of goods.

Detailed information on Beijing Clover is attached as Annex II.

(c) Western Moon

Western Moon is a private limited liability company located in Kunming city, Yunnan province. Its business scope includes planting and sales of flower and lawn; import and export of goods and technology. Its registered capital is CNY 1 million which is held by Tian Fengjiang (natural person) alone. It has no subsidiary but one branch in Ningxia province.

Regular inspections on compliance with tax exemption conditions

According to Chinese law, cases under criminal investigations are confidential and are not open to public until court hearing. Therefore, it is not possible to obtain information on the specific charges against them from official sources.

According to our findings,, the Yunnan Department of Finance conducts regular on-site inspections with companies that have been granted tax exemptions. The risk percentage of annually being subjected to such inspections is around 30%.

Such inspections focus on the following:

- 1) comparison between the actual import that is declared at custom clearance and the granted conditions of tax exemption;
- 2) storage records of imported seeds and its actual usage including records of putting the imported seeds in and out of the storage, planting agreements, the land leased for planting and usage records , and the record of actual planting by the company itself or by the cooperative farmers. The major focus should be laid on inspecting whether there is sales or disguised sales;
- 3) the agency agreements involved and its implementations;
- 4) whether the imported flower bulbs, seeds and seedling are resold;
- 5) performance and evaluation of the implementation of the tax exemption policies.

These 5 inspection items are actually based on the local rules of Yunnan with respect to tax exemption for imported flower bulbs. We will summarize such local rules in the Section 2 below.

We have learned from an unofficial source that the Importers are investigated for tax malfeasance over different periods and that it is not one overall investigation by one authority. During our verbal inquiry with the Yunnan Department of Finance, a government officer there confirmed that there are

four companies in Yunnan which are currently under the investigation due to the violation of the local rules of Yunnan by directly reselling the import VAT-exempted bulbs without any “planting”. For the reasons mentioned above, he could not provide any further details.

2. Tax Exemption Rules

A. Yunnan Regulatory

Since Yunnan is the biggest flower import Province in China, it is granted autonomy to formulate its own rules on the tax exemption policy on the importation of flower bulbs.

The principle regulation is the *Administrative Measures of Yunnan Province for the Tax Exemption Policy on the Importation of Flower Seeds, Bulbs, and Seedlings* (hereinafter “Yunnan Administrative Measures”) jointly issued by the Finance Department of Yunnan Province, Kunming Customs and the State Tax Bureau of Yunnan Province on 2 June 2011.¹

According to the aforesaid local authorities that enacted the Yunnan Administrative Measures, the newly updated national policy, namely the *Administrative Measures for the Tax Exemption Policy on the Importation of Seed Sources during the "Thirteenth Five-Year Plan" Period*² (“the 13th Measures”) which were jointly released by the Ministry of Finance (“MoF”), General Administration of Customs (“GACC”) and State Administration of Tax (“SAT”) on 24 November 2016 (with a retrospective effect back to 1 January 2016) does not result in change of Yunnan local policy.

- **Requirements for Importers to qualify for VAT exemption**

In accordance with the Yunnan Administrative Measures, the tax exemption policy refers to the exemption of customs duties and import VAT³ on flower seeds, bulbs and seedlings imported and used for scientific research and planting in Yunnan.

The tax exemption policy also applies to enterprises adopting the operation mode of “Company + Farmers (or flower growers cooperatives, agricultural specialized cooperatives) (hereinafter “Company + Farmers”). Enterprises engaging in sales or disguised sales of flower seeds, bulbs and seedlings shall not enjoy the tax exemption policy. This is explicitly set out in the Yunnan Administrative Measures.⁴

For an importer to be qualified for VAT exemption, the following conditions or restrictions shall be met:

- a) The importer has to be registered in Yunnan province;
- b) The business scope of the importer should include “scientific research on flowers” and/or “planting of flowers”;
- c) The imported flower bulbs must be used for either scientific research or planting by the importer itself, or by farmers who have cooperation planting agreements with the importer (incl. “Company + Farmers” mode). With respect to the “Company + Farmers” mode, the local authorities of Yunnan have emphasized that such a relationship between the importer and the

² The 13th Five Year Plan Period lasts from 1 January 2016 to 31 December 2020.

³ When importing products into China, on top of normal tariff duties, the importers are required to pay value-added tax (VAT). Import VAT is collected based on the increase in value of a product at the stage of import. The rate of VAT imposed on the import of seeds and flower bulbs is 13% before the date of 1 July 2017 (the rate is reduced to 11% thereafter according the new policy issued by the State Administration of Taxation and Finance). The import VAT levied is deductible against the VAT levied at the stage of selling domestically.

⁴ Article 2 of the Yunnan Administrative Measures.

farmers is regulated by way of “entrustment/ authorization”, which means that the farmers shall plant the imported bulbs on behalf of the importer⁵. In this mode, both the farmers and the planting activities they conduct must be within the territory of Yunnan;

- d) The eligible enterprises will only enjoy the VAT exemption by application and subject to the examination, verification and approval by the competent authority; and
- e) The imported flower bulbs that are granted VAT exemption cannot be resold in Yunnan without planting. The enterprises engaging in scientific research and planting of flowers or their entrusted import & export agencies are strictly prohibited from reselling the tax exempt imported flower bulbs. If such resale is found, the tax exemption qualification of the enterprise involved will be suspended or cancelled.⁶

In particular sub e) here above might have been breached by the Importers.

- **Competent Authorities**

The Yunnan Provincial Department of Finance is in charge of the decision and management of the tax exemption plan on the import of flower bulbs. The annual tax exemption plan shall be reviewed and reported by the Yunnan Provincial Department of Finance jointly with the Kunming Customs, the Yunnan Provincial State Tax Bureau.⁷

Besides, the custom clearance of the import of flower bulbs that have been granted tax exemption must be handled with the Kunming Customs.⁸

- **Documents Required for an Importer to Apply for the Tax Exemption⁹**

For the purpose of enjoying the tax exemption, the following documents are required to be submitted to Yunnan Provincial Department of Finance:

- a) The application report and the application form for tax exemption on the import of flower bulbs into Yunnan;
- b) The business license of the applicant;
- c) The land lease agreement;
- d) The goods import contract in English and Chinese;
- e) The cooperation planting agreement (for “Company + Farmers” mode only); and
- f) True copies of the record-filing registration form for foreign trade and the registration certificate of the custom declaration (if the tax exemption application is directly handled by the enterprise itself) or the true copies of the agency agreement with and the business license, record-filing registration form for foreign trade and the registration certificate of custom declaration of the import & export agency (if the tax exemption application is handled by an import & export agency).

- **Quota**

The enterprises engaged in scientific research or planting of flowers should file its annual tax exemption plan on the import of flower bulbs one year before the importation. The Yunnan Department

⁵ According to our verbal inquiry with Yunnan Department of Finance, a government official there indicated in practice “cooperation” should be an essential element which should be reflected through the profit sharing between the importers and local farmers among others.

⁶ Article 13 of the Yunnan Administrative Measures .

⁷ Article 4 of the Yunnan Administrative Measures.

⁸ Article 12 of the Yunnan Administrative Measures.

⁹ Article 5 of the Yunnan Administrative Measures.

of Finance will decide on the annual quota for each enterprise¹⁰. The annual quota can be adjusted before the end of September of the year in which the enterprise finds the granted annual quota insufficient or redundant by reporting to the Yunnan Department of Finance in writing¹¹. In other words, the importers are not allowed to trade quota among themselves.

The enterprises enjoying tax exemption are obliged to report the implementation status and analysis materials of the annual exemption plan for the last year before 31 January each year. The competent authorities may suspend the acceptance of tax exemption application if the enterprises fail to report on time¹².

According to our verbal inquiry, there is an overall amount cap of USD 88.9 million for all kinds of flower bulbs imported, anticipated by Yunnan Department of Finance in the beginning of 2017. This amount is not included in the national quota to be introduced in the section B National Regulatory below.

- **Supervision and Inspection after Import**

The Yunnan Provincial Department of Finance, Kunming Customs or the Provincial State Taxation Bureau will regularly or periodically organize relevant departments or agencies to supervise and inspect the implementation of the tax exemption plan on the import of flower bulbs¹³. If non-compliance is found, rectification will be ordered; if the enterprises refuse to rectify timely, the application for tax exemption shall be suspended; if the circumstances are serious, its tax exemption eligibility may be cancelled.¹⁴

B. National Regulatory

We here below will set out in detail how the regulatory on a national lever works. This might still be important to understand the total framework, and do specific pre-sale due diligence when a Dutch exporter would contemplate to contract with an importer outside Yunnan.

- **Rules on tax exemption from Ministry of Agriculture/ State Forestry Administration**

As mentioned above, given that Yunnan is the biggest flower imported province in China, autonomy to formulate its own rules is granted. And in provinces other than Yunnan, the 13th Measures apply.

With the implementation of the 13th Measures, certain regulations implementing an overall quantity control method have been abolished, including the “approval of tax exemption on imports of agricultural seed and provenance” by the Ministry of Agriculture (“MoA”) and the “verification of provenance of wild animals and plants for breeding purposes” by the State Forestry Administration (“SFA”).

¹⁰ Article 8 of the Yunnan Administrative Measures.

¹¹ Article 10 of the Yunan Administrative Measures.

¹² Article 7 of the Yunan Administrative Measures.

¹³ Specifically, a qualified accounting firm will be selected randomly by computer software, among 50 candidates firms, to be responsible for auditing 15 random-selected importers at the beginning of every year. The audit will include on-site checks for planting, warehouse-in and out inspections, etc. The inspection results will be sent back to each importer, and administrative punishment for violating importers will be published at company's credit website (We have not found such information about the Three Importers at the said website). Any suspicion of criminal guilty will be sent to tax audit department for criminal charges.

¹⁴ Article 14 of the Yunnan Administrative Measures.

Under the 13th Measures,, Chinese importers of flower bulbs with specific qualifications may enjoy tax exemption by following the procedures which will be discussed below in more detail.

- **Tax exemption list and import purpose**

According to the 13th Measures, the scope of tax-exempt varieties includes a seed (seedling) used for planting and cultivating various crops and forests¹⁵. A list of seeds (“List”) exempted from import VAT is attached as Annex IV. Tulip bulbs and lily bulbs are included as item 25 and item 26.

The tax exemption conditions for seeds are: (1) the seed is listed in the List and; (2) the seed is directly used in or served for agricultural or forestry production and (3) the imported seeds under tax exemption are not allowed to be used for the construction or services of any resort, club, golf course, soccer field, or other places of consumption or sports venue¹⁶.

- **Operating procedures for tax-exempt import¹⁷**

Firstly, the importers that apply for tax-exempt import of items in the List should submit their annual demand for tax-exempt import to MoA or SFA. .

After receiving all the applications, MoA and SFA will submit a proposal on the annual tax-exempt import to the MoF, GACC and SAT. MoF, together with GACC and SAT will approve the annual tax-exempt import plan, based on which MoA and SFA will subsequently confirm to each of the importer applicants respectively the tax-exempt varieties and quantities of seeds and the end-use (marked with “can be transferred and sold” where applicable).

Lastly, the importer should undergo the formalities for tax-exempt import with the local competent customs within the scope of varieties and quantities confirmed by MoA or SFA. .

- **Qualification requirements**

According to the 13th Measures, MoA and SFA are responsible for the administrative management of collecting seed (seedling) import plan.

On 20 April 2017 MoA issued the *Measures for the Implementation of Tax Exemption Policy for the import of Seed Source during the 13th Five-Year Plan Period (NongWaiBan [2017] No. 2)*¹⁸, and *Circular on Submitting the Seed (Seedling) Import and Tax-exemption Plan in 2018*, according to which the importer applicants are required to obtain Seed Operation License.

Similarly, on 13 June 2017 SFA issued the *Application Procedures for Tax-exemption Import of Forest Tree Seed during the 13th Five-Year Plan Period*. A company may import by itself directly or through a qualified agent. In either case, such company or the qualified agent should obtain a Forest Seed License

According to China Seed Law (revised in 2015), to conduct flower seed import business and apply for the tax exemption, importers shall first possess Crop Seeds License issued by MoA, or Forest Seeds License issued by SFA. Importers applying for either of the aforesaid licenses have to meet various requirements, including qualified facilities, equipment, technical staff, operation environment, etc.¹⁹ By

¹⁵ Article 2 of 13th Measures.

¹⁶ Article 3 of 13th Measures.

¹⁷ Article 4 of 13th Measures

¹⁸ The MoA and SFA Measures will be valid till the end of 13th Five Year Plan Period, i.e. 31 December 2020.

¹⁹ Article 6-10 of the Administrative Measures for the Crop Seed License; Article 10 of the Administrative

comparison, it appears, to be easier for importers to obtain the Forestry Seeds License, and that could be a reason why most of the Chinese flower importers choose to apply for the Forestry Seeds License, and thereby their import of tax-exempted flower bulbs would be subject to the regulation and annual quota of SFA.

- **Application documents required for the importers**

The application of tax-exempted import of seeds for the next calendar year should be filed to MoA or SFA no later than middle November of the current year. Since the majority of flower bulbs importers in China file their application to SFA, we will elaborate on the documents required by SFA for such application.

The application documents required by SFA according to the latest rules include the following:

- a) The application form for import forestry seeds (seedlings);
- b) The copies of import contract, which should include: import port, species name, standard, quantity, quality, etc.;
- c) The true copies of the Forestry Seeds License (only for the first application of the current year); if the import is handled by import agencies, the Forestry Seeds License of the import agency should be submitted instead;
- d) Special requirements for import with the purpose of direct transferring and selling²⁰: the copies of the transfer contract or sale contract only for importers apply for importing item 1,2, **25,26,27,44,46** and 47 of the List), and the purpose of import is for selling or transferring stated in the Application Form. If the import is handled by import agencies, the agency agreements should also be submitted;
- e) Special requirements for import with the purpose of planting: the copies of the land-use right documents; the land location, acreage and usage should be in accordance with the recordings in the application form;

- **The amount of import (plan) submitted**

An importer is required to submit a plan for next year's import, which should be accompanied by the actual import quantity of the current year and a planned quantity for the next year based on importer's own operation. If the planned quantity in the import plan exceeds 10% of the actual import quantity of the current year, the importer is required to submit a detailed explanation to justify its plan. However, if the importer does not import the quantity of tax-exempted seeds as granted by SFA due to change of business, the importer shall return the approval documents within 2 weeks after the expiry of validity period of such approval documents and provide a written statement on the reasons of failing to import the granted quota.

If the importer does not return the approval documents in time or fails to justify the unused quota, the quota for the next year will be impaired as the unused quota from the previous year will be deducted accordingly. Such rules will encourage the importers to submit the planned import quantity in a more practical way. Although it is not explicitly forbidden by the rules, we assume, based on such mechanism, the importers are not allowed to trade the quota among themselves.

Measures for the Forestry Seed License.

²⁰ *There is no definition of the term "transfer" or "sell" therein. In general, "transfer" and "sell" should both refer to transaction modes. When it comes to movable goods, "transfer" should mean transfer of ownership which in broad sense includes the "sell"; "Sell" is used more as a commercial term which is intended to emphasize on the transfer of ownership with consideration. Direct transfer or sale is only permissible for a number of seed varieties which include tulip and lily bulbs. We will elaborate on this rule later in this memo.*

At the national level, MoA and SFA administer the quota for each importer under a system of annual total quotas for all the importers except those located in Yunnan which are subject to the local quota system²¹.

- **National rules on direct transfer and sell**

Under the 13th Measures, a number of tax-exempted varieties are permissible to be transferred or sold immediately after the importation, provided that such immediate transfer or sale has been indicated as the mode of end-use in the import plan submitted to MoA or SFA which then has confirmed and marked such mode of end-use (“can be transferred or sold”) in the approval documents. Otherwise, import VAT will be collected.²²

Tulip bulbs and lily bulbs are included among the seed varieties permissible for direct transfer or sale. In this sense, the importer of tulip bulbs and lily bulbs located in China (other than Yunnan) may immediately resell the imported bulbs without any planting activities, provided that the aforesaid conditions have been met.

As for other imported seeds under the tax-exempt quota, which either fall outside the scope of varieties permissible for immediate transfer or sell or the relevant approval documents lack the explicit indication of “can be transferred or sold”, are forbidden from being transferred or sold without rational planting experiment, cultivation, breeding or raising, unless permitted by the authorities otherwise²³

An importer in violation of the abovementioned rules is subject to suspension of its qualification for tax exemption for one year, and the importer who is subject to criminal liability for tax evasion is also subject to suspension of its qualification for tax exemption for three years.²⁴

- **Standards on planting and cultivation**

According to the 13th Measures, SFA has specified standards for “rational planting experiment, cultivation, breeding or raising” in the *Application Procedures for Tax-exemption Import of Forest Tree Seed during the 13th Five-Year Plan Period*. As for the bulbs, once the following criteria is met, it should be deemed that “reasonable planting and cultivation” has been completed:

There shall be new root, stem, or leaf grown up after planting and cultivating”, (for lily bulbs using cold storage for pre-rooting, it is required to grow up fibrous root).

Such standards are also applied to Yunnan’s rules for cooperative import and growing. Only after such standards are met, the importers in Yunnan are allowed to transfer or sell flower bulbs.

²¹ For the year of 2017, SFA has issued a national overall quota of 100 million bulbs for lily bulbs and tulip bulbs respectively; while MoA has issued a quota of 45 million bulbs for lily, tulip and others in total. Such figures do not include imported bulbs under the local rules of Yunnan.

²² Article 2 of Notice of the General Administration of Customs on Issues concerning the Implementation of the Tax Policies for Imported Seeds and Provenance during the 13th Five-Year Plan Period.

²³ Article 8 of Notice of the General Administration of Customs on Issues concerning the Implementation of the Tax Policies for Imported Seeds and Provenance during the 13th Five-Year Plan Period

²⁴ Article 8 of the 13th Measures.

C. Comparison of Yunnan and National Regulations

The difference between Yunnan local rules and national rules and the implications for the Dutch flower bulbs exporters are set forth in the table below.

	Yunnan Rules	National Rules	Implications for Dutch Exporters
Qualification of importers	<ul style="list-style-type: none"> No Crop Seeds License or Forestry Seed License required; Business scope should scientific research on flowers and/or planting of flowers 	Obtaining of Crop Seeds License or Forestry Seed License is required	Threshold set by Yunnan rules is lower than the national rules, which makes a relatively large number of the eligible importers in Yunnan and easier for Dutch exporters to find a importer with less efforts on due diligence required.
Quota management	<ul style="list-style-type: none"> Yunnan adopts a local quota system which is totally independent from the national quota system; More flexible for the importers as they are also allowed to have the quota adjusted by the local authorities in Q 3 of a year 	<ul style="list-style-type: none"> No flexibility for the importers who can only submit the planned import quantity once in advance; More conservative in making an estimate of import quantity as underperformance may negatively impact the quota to be granted next year 	Yunnan importers have more flexibility in obtaining the quota accommodating its actual operation and import plan and such incentive for importing will benefit the Dutch exporters.
Conditions for transfer or sell	<ul style="list-style-type: none"> No immediate transfer or sell is allowed; Planting before transfer or sell is a must; 	Immediate transfer or sell of tulip bulbs and lily bulbs are permissible	<ul style="list-style-type: none"> Post-import supervision and monitoring in Yunnan is a key concern as exposures of non-compliance among Yunnan importers are expected to be higher than importers outside Yunnan; Practical for Dutch exporters to check whether an importer outside Yunnan is allowed to immediately transfer or sell tulip bulbs and importers which are allowed to do so may be the preferred options for the Dutch exporters; More efforts required for the Dutch exporters to exert any influence on the post-import activities of Yunnan importers of which any non-compliance with local rules would endanger the trade with exporters.

3. Recommendations

Since the alleged violation of the Yunnan Administrative Measures is the main cause leading to the current case, it is advised to be careful when dealing with importers from Yunnan Province.

- **Pre due diligence before contracting with a Chinese importer of flower bulbs**

To avoid contracting with a non-compliant importer we suggest the following pre-due diligence when establishing a new long term relationship with a new importer in which payment terms are partly on the basis of open account. A lot of objective information can be retrieved from official data bases. However, the governmental records on tax exemption qualification are not open to the public. It is therefore advised to inquire with the importer itself for evidence that tax exemption has been granted.

In addition, if the importer is from Yunnan, three conditions need to be confirmed: (a) such company is registered in Yunnan; (b) the business scope of such company shall include either scientific research of flowers or planting of flowers; (c) the planting shall be conducted by itself or by cooperative farmers within Yunnan.

However, even if the eligibility of the importer has been confirmed as apparently is without problems, the exporter will still be put at risk if the importer does not act in accordance with the Yunnan Administration Measures after the tax exemption has been granted. Mainly, the importer may resell the imported flower bulbs without planting.

Finally, if the Chinese importer has substance in terms of paid-up registered capital, and is in existence for years, recourse in the event of failure is more likely. In this respect, the chances to collect outstanding payments from Sino Flor and Beijing Clover are far more likely compared with the relatively small company Western Moon that has less reason not file for bankruptcy in the event outstanding payments are causing substantial loss making.

- **Proper standard export contract that can be enforced in China in the event of irregularities**

Of course a L/C or prepayment as payment term is advised. However, in the event this is not feasible, the payment obligation in an agreement should at least be able enforceable in China. Stating that Dutch law is applicable and that Dutch courts are competent does not have effect in China when it comes to enforcement in China.

Further, the term of representation and warranty in the contract shall also have attention to prevent against concocted arguments with respect to quality problems in order to avoid payment.

We would be happy to check existing export agreements or draft a standard agreement that is China law proof and enforceable in China.

- **Keeping up to date with the regulatory and policy changes**

The Yunnan Administrative Measures were released in 2011, during the 12th Five-Year Plan.

Since the 13th Measures have been released, it is likely that the Yunnan Administrative Measures will be amended or replaced accordingly in order to become compliant with the 13th Five-Year Plan and the 13th Measures. For example, on the matter of VAT exemption for importers reselling the flower bulbs, during the period of 12th Five-Year Plan, the flower bulbs granted VAT exemption is prohibited from selling without planting, unless prior approval is obtained; in comparison, during the 13th Five-

Year Plan, importers of certain seeds listed (including tulips and lily bulbs) are entitled to apply for VAT exemption, and the seeds can be resold upon the when the VAT exemption form is marked with “can be transferred or sold”.

According to informal discussions with the Yunnan local authorities, we have been informed that, though Yunnan has autonomy to formulate its own rules on tax exemption policy on imported flower bulbs, the occurrence of the case of the (apparently) non-compliant Importers may make the central government reconsider such grant of autonomy to the Yunnan Province, and the central government might take back such autonomy in future.

Considering that the possible change of Yunnan local rules and the continuous changing status of the national rules, it is important keep up to date with any regulatory change to timely adjust the strategy.

In addition, Anthos might undertake efforts to organize or support a lobby with the authorities to change the present regulatory, or clarify inconsistencies, and enhance transparency with respect to the export and clearing of flower bulb trade with China.

Our firm would be happy to provide a service keep Anthos regularly updated of any new developments.

JHS/LJO

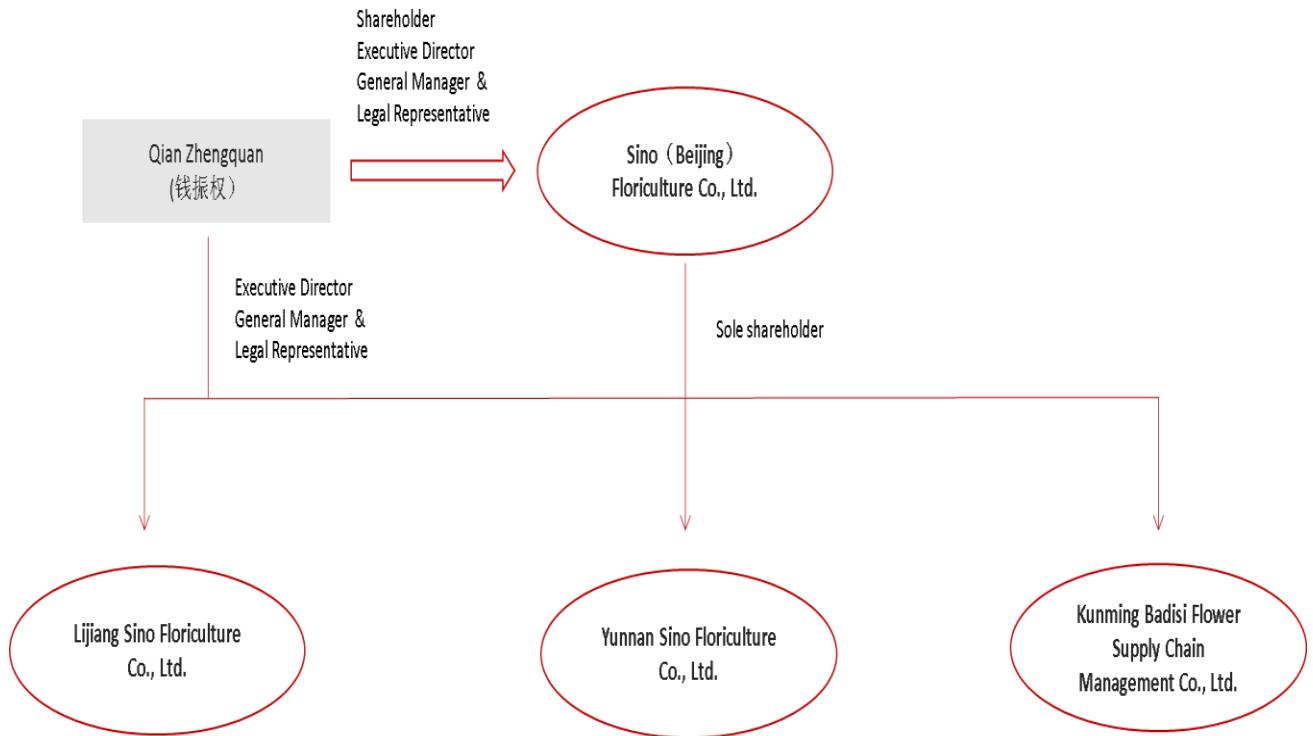
Annex I: SAIC search of Sino Flor

<u>Summary of Company Registration Research at State Administration for Industry and Commerce</u>	
Sino (Beijing) Floriculture Co., Ltd. 西诺（北京）花卉种业有限公司	
Unified social credit code	91110302784828761J
Legal representative	Qian Zhenquan(钱振权)
Phone	010-87163150
Email	sinoseed@163.com
Date of establishment	13 January, 2016
Registered capital	CNY 50 million
Company type	CO., LTD
Equity holder	<ul style="list-style-type: none"> ● Hua Wei (华伟) - CNY 3.75 million in cash (has paid in CNY 1.5 million on 19 Dec. 2014, and CNY 2.25 million on 17 May. 2017) – 7.5% ● Qian Zhenquan (钱振权) - CNY 8.25 million in cash (has paid in CNY 3.3 million on 19 Dec. 2014, and CNY 4.95 million on 15 May. 2017) – 16.5% ● Beijing Huaxianggu Investment Centre LLP. (北京花象谷投资中心（有限合伙）) - CNY 20 million in cash (has paid in CNY 8 million on 19 Dec. 2014, and CNY 12 million on 25 May. 2017) – 40% ● Beijing Xianhuagu Investment Centre LLP. (北京鲜花谷投资中心（有限合伙）) - CNY 3 million in cash (has paid in CNY 1.2 million on 19 Dec. 2014, and CNY 1.8 million on 16 May. 2017) – 6% ● Jiangsu Sino Horticulture Flower Co., Ltd. (江苏西诺花卉有限公司) - CNY 15 million in cash (has paid in CNY 6 million on 19 Dec. 2014, and CNY 9 million on 9 May. 2015) – 30%
Senior executive	<ol style="list-style-type: none"> 1. Manager: Qian Zhenquan (钱振权) 2. Executive director: Qian Zhenquan (钱振权) 3. Supervisor: Wang Nan (王楠)
Registered address	Room 1001, Building No.27, Courtyard No.8, Forth Fenggu Road, Zhongguancun Yanqing Garen, Yangqing District, Beijing (北京市延庆区中关村延庆园风谷四路8号院27号楼1001)
Business scope	Flower cultivation; technology development, training, service, transfer; information consultant(except intermediary services); sale of flower, bonsai, lawn, chemical fertilizer, pesticide(except dangerous chemical), general merchandise, office supplies, horticultural machinery, horticulture tool; import and export of goods; agency of import and export; garden design; conservation of garden green land; landscape; sale of seed, seedling.

	Change matters	Before the change	After the change	Change date
Change of registration	Legal representative	Zhang Jianling (张渐玲)	Qian Zhenquan (钱振权)	12 July. 2013
	Senior executive	Executive director: Zhang Jianling (张渐玲) Manager: Xu Liang(徐亮) Supervisor: Qian Zhenquan (钱振权)	Manager: Qian Zhenquan (钱振权) Executive director: Qian Zhenquan (钱振权) Supervisor: Wang Nan (王楠)	12 July. 2013
	Equity holder	Zhang Jianling (张渐玲)-70% Qian Zhenquan (钱振权)-30%	Qian Zhenquan (钱振权)-74% Wang Nan (王楠)-26%	12 July. 2013
	Registered address	Yard 11-12, Courtyard No.10, East Kuangqiao St., Mentougou district, Beijing.	Room 401, 4 th floor, Unit 1, Building 62, No.2 North Jingyuan St., BDA, Beijing.	9 July. 2014
	Registered capital	CNY 1 million	CNY 50 million	30 October. 2014
	Equity holder	Qian Zhenquan (钱振权)-74% Wang Nan (王楠)-26%	Jiangsu SinoHorticulture Flower Co., Ltd.(江苏西诺花卉有限公司)-100%	9 January. 2015
	Equity holder	Jiangsu SinoHorticulture Flower Co., Ltd.(江苏西诺花卉有限公司)-100%	Hua Wei (华伟) - 7.5% Qian Zhenquan (钱振权) - 16.5% BeijingHuaxianggu Investment Centre LLP. (北京花象谷投资中心(有限合伙)) - 40% BeijingXianhuagu Investment Centre LLP. (北京鲜花谷投资中心(有限合伙)) - 6% Jiangsu SinoHorticulture Flower Co., Ltd.(江苏西诺花卉有限公司) - 30%	21 December. 2015
	Registered capital	CNY 50 million	CNY 20 million	21 December. 2015
	Registered address	Room 401, 4 th floor, Unit 1, Building 62, No.2 North Jingyuan St., BDA, Beijing.	Room 1001, Building No.27, Courtyard No.8, Forth Fenggu Road, Zhongguancun Yanqing Garen,	12 December 2016

			Yangqing District, Beijing	
	Registered capital	CNY 20 million	CNY 50 million	18 May. 2017

COMPANY CHART:



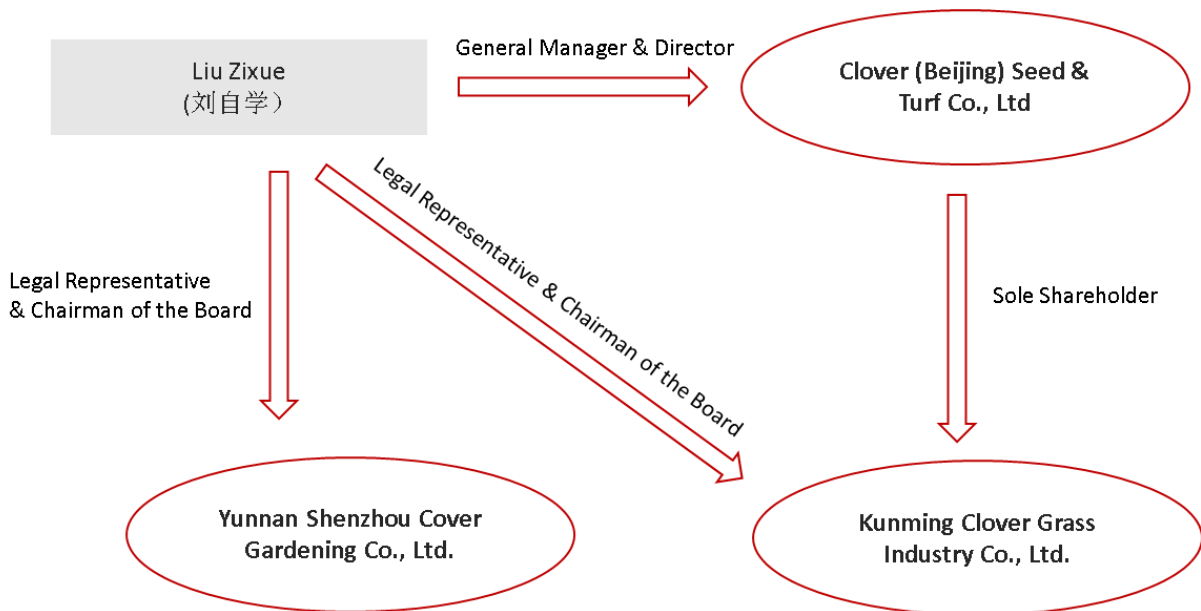
Annex II: SAIC search of Beijing Clover Seed & Turf Co and its Yunnan subsidiaries

Summary of Company Registration Research at State Administration for Industry and Commerce				
Clover (Beijing) Seed & Turf CO., Ltd. 克劳沃（北京）生态科技有限公司				
Unified social credit code	91110105600040778N			
Legal representative	Zheng Caihong(郑彩红)			
Phone	010-64950380			
Email	seed@bjclover.com / admin@bjclover.com			
Date of establishment	25Nov. 1994			
Registered capital	CNY 133.3333 million			
Company type	CO., LTD			
Equity holder	<ul style="list-style-type: none"> ● National Animal Husbandry Station (全国畜牧总站) (Public Institution)- subscribed contribution: CNY 40 million; ratio of contributions: 30% ● Xinjiang Qinggeda Ecological Investment And Development Group Co.,Ltd. (新疆青格达生态区投资开发集团有限公司)(State-owned Company), ratio of contributions:70% 			
Senior executive	<ol style="list-style-type: none"> 1. Chairman of the Board: Zheng Caihong(郑彩红) 2. Manager, Director: Liu Zixue(刘自学) 3. Director: Wang Yu (王瑜) 4. Chairman of the board of supervisors: GuoJie (郭杰) 5. Supervisor: Liu Xiaobo (刘晓博) 6. Supervisor: Yang Xiaowen (杨晓文) 			
Registered address	Room 1305A, Building No.208, Area No.2, Middle Lize Park, Wangjing New Industry Zone, Chaoyang District, Beijing			
Business scope	technology development, consultant service and technology training for grass industry; Sale of building materials (not in entity shops), flowers, tree(seedling), mechanical equipment, lawn, pesticide, grass seed, seed (seedling, bulb), fertilizer for flowers, fertilizer for grass; screen of grass seed; consultant service, design and construction for landscaping, estate management, real estate development, self-run or agency of import and export goods and technology (except forbidden items); processing with supplied materials and the three-processing and one compensation business; counter trade and transit trade.			
Change of registration	Change matters	Before the change	After the change	Change date

	Registered capital	CNY 10 million	CNY 40 million	7 Apr. 2013
	Company type	State-owned Company	CO., LTD	5 Jul. 2016
	Equity holder	National Animal Husbandry Veterinarian Station (全国畜牧兽医总站)	National Animal Husbandry Station (全国畜牧总站); Zhongjiacheng International Investment(Beijing)Co.,Ltd. (中嘉成国际投资(北京)有限公司).	5 Jul. 2016
	Registered capital	CNY 40 million	CNY 133.3333 million	5 Jul. 2016
	Legal representative	Liu Zixue(刘自学)	Sun Yu (孙玉)	5 Jul. 2016
	Company name	Beijing Clover Grass Industry Technology Development Centre	Clover (Beijing) Grass Industry Technology CO., Ltd.	5 Jul. 2016
	Senior executive	None record	Chairman of the Board: Zheng Caihong(郑彩虹) Manager, Director: Liu Zixue(刘自学) Director: Sun Yu (孙玉) Chairman of the board of supervisors: GuoJie (郭杰) Supervisor: Liu Xiaobo (刘晓博) Supervisor: Yang Xiaowen (杨晓文)	22 Jan. 2017
	Equity holder	Zhongjiacheng International Investment(Beijing)Co.,Ltd. (中嘉成国际投资(北京)有限公司).	Xinjiang Qinggeda Ecological Investment And Development Group Co.,Ltd. (新疆青格达生态区投资开发集团有限公司)	22 Jan. 2017

	Business scope		Added: Sale of building materials (not in entity shops)	22 Jan. 2017
	Legal representative	Sun Yu (孙玉)	Zheng Caihong (郑彩红)	22 Jan. 2017
	Company name	Clover (Beijing) Grass Industry Technology CO., Ltd.	Clover (Beijing) Seed & Turf CO., Ltd.	22 Jan. 2017
	Senior executive	Director: Sun Yu (孙玉)	Director: Wang Yu (王瑜)	26 Jul. 2017

COMPANY CHART:



Annex III: SAIC search of Yunnan Western Moon Intl.and its Yunnan subsidiaries

<u>Summary of Company Registration Research at State Administration for Industry and Commerce</u>				
Yunnan Western Moon Trading CO., Ltd. 云南西月贸易有限公司				
Unified social credit code	9153012169305799XW			
Legal representative	Tian Fengjiang(田凤江)			
Phone	0871-67498200			
Email	1215016165@qq.com			
Date of establishment	12Aug. 2009			
Registered capital	CNY 1 million			
Company type	CO., LTD			
Equity holder	<ul style="list-style-type: none"> ● Tian Fengjiang (田凤江)– CNY 1million – 100% 			
Senior executive	4. Executive director, Manager: Tian Fengjiang (田凤江)			
Registered address	Room 208, Yunnan Flower Logistics Center Office Building, Nanyun Town, Chenggong District, Kunming City, Yunnan Province			
Business scope	Cultivation and sale of flower and lawn; import and export of goods and technology.			
Change of registration	Change matters	Before the change	After the change	Change date
None				

Annex IV: Tax exemption goods list (national rule)

进口种子种源免税货品清单		Tax exemption goods list
序号	货品简化名称	Product Designation
	中文	English
一、种子（苗）		I.Seed (seedling)
1	无根插枝及接穗	Rootless cuttings and Scion
2	水果、干果种子（苗）	Fruit, Dried fruit seed (seedling)
3	菌种	Strain
4	松、杉、柏类种子	Pine, Fir,Cupressaceae seed
5	桉、相思类种子	Eucalyptus seed
6	蔷薇、木兰类种子	Rose,Magnolia seed
7	桦、樟树种子	Betula,Camphor seed
8	棕榈、漆、槭种子	Palm, Toxicodendron vernicifluum,Maple seed
9	种用薯类	potato seed
10	豆类种子	Beans seed
11	瓜类种子	Melons seed
12	咖啡种子	Coffee seed
13	茶种	Tea seed
14	蚕种	Silkworm
15	桑苗	Mulberry seedling
16	麦类种子	Wheat and barley seed
17	玉米种子	Maize seed
18	水稻种子	Paddy seed
19	其他谷物种子	Other cereals seed
20	种用花生	peanut seed
21	麻类种子	Cannabis seed
22	种用油菜子	Seed Rapeseed
23	种用向日葵籽	Sunflower seed
24	棉花种子	Cotton seed
25	郁金香种球	Tulip bulbs
26	百合种球	Lily bulbs
27	唐菖蒲种球	Gladiolus bulbs
28	种用芝麻	sesame seed
29	其他油料种子	Other Oilseed
30	甜菜种子	Beet seed
31	紫苜蓿子	Purple clover seed

32	三叶草子	Clover seed
33	羊茅子	Fawn seed
34	早熟禾子	Poa annua seed
35	黑麦草种子	Rye grass seed
36	梯牧草种子	Phleum pratense seed
37	柱花草种子	Stylo seed
38	狗牙根种子	Bermudagrass seed
39	苏丹草种子	Sorghum sudanense seed
40	结缕草种子	Zoysia japonica seed
41	绿肥种子	Green manure seed
42	草坪种子	Lawn seed
43	其他饲草、饲料植物种子	Other seed for forage plants
44	花卉种子（苗、球、茎）	Flowers seed (seedling bulbs, stems)
45	蔬菜类	Vegetable seed
46	其他种植用的种子、果实及孢子	Other seed for planting, fructification and spores
47	其他种植用根、茎、苗、牙等繁殖材料	Other cultivated roots, stems, seedling, teeth, reproductive materials
48	药材类种子（苗）	Herbs seed (seedling)
49	甘蔗种苗	Cane seedling
50	天然橡胶种子	Natural rubber seed
51	烟草种子	Tobacco seed