

CHINA

I. Introduction

1. Identify the geographic scope and limits of your answers to the questions below.

People's Republic of China ("PRC")

Please note that, in China, marijuana is strictly prohibited under the PRC Criminal Law and the PRC Anti-Drug Law. Hemp (industrial cannabis) is only legalized in Yunnan Province (in southwest China) and Heilongjiang Province (in northeast China) in terms of planting, processing and sale. Besides, Jilin Province (also in northeast China) is expected to be the third province to legalize this industry.

II. Legislation

2. Please provide links to applicable statutes and regulations.

National Legislations

- Article 347 to 357 of the PRC Criminal Law
- The PRC Anti-Drug Law
- Regulation on the Control of Narcotic Drugs and Psychotropic Drugs ("Regulation")
- Amendments to the Regulation in 2013
- Amendments to the Regulation in 2016
- Variety Directory of Narcotic Drugs and Psychotropic Drugs
- Negative List for Market Access

Local Regulations

- Regulations of Yunnan Province on License for Planting and Processing Industrial Cannabis
- Chapter IV of the Regulations of Heilongjiang Province on Anti-Drug

A. Is there any pending legislation that could materially alter applicable statutes or regulations?

No.

B. Is there any proposed legislation that could materially alter applicable statutes or regulations?

No. Please note that the competent authorities of Jilin Province have proposed amendments to the current Regulations of Jilin Province on Anti-Drug to legalize the planting, processing and sale of hemp in the territory of Jilin Province, which may make the province the third to legalize hemp industry.

3. Are cannabis laws in your jurisdiction pretty well settled or are they constantly changing in material ways?

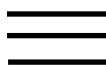
Overall, cannabis laws are not well settled and may evolve from time to time. However, relevant regulations in Yunnan Province are quite settled.

III. General information (e.g., governing bodies, licenses, import/export)

4. What governing body regulates/licenses or enforces activities that are allowed in your jurisdiction?

Yunnan Province

The provincial level Public Security Department ("PSD") is responsible for issuing the license to plant industrial cannabis for purposes of scientific research and seed reproduction.



Local Public Security Bureau (“PSB”) at county level is in charge of 1) issuing the license to plant industrial cannabis for purpose of industrial raw material provision; 2) issuing the license to process the flower and leaf of industrial cannabis; and 3) record filing of industrial cannabis planting for gardening or folk custom purposes.

Heilongjiang Province

Department of Agriculture and Rural Affairs of Heilongjiang Province (“DARA”) is responsible for the variety certification of industrial cannabis seeds.

Local PSB at county level is responsible for record filing of the planting, processing and selling of industrial cannabis.

5. What cannabis functions are allowed in your jurisdiction? E.g., growing, processing, retailing?

Growing, processing and selling of industrial cannabis are allowed in Yunnan Province and Heilongjiang province.

6. What sales or use is allowed in your jurisdiction? E.g., edibles, vaping, tinctures, food additives, etc.

Industrial cannabis is mostly used in the PRC for industrial purposes such as using its fiber to produce paper, rope, fabrics, canvas, sails, etc., as well as construction materials. The root and leaf of industrial cannabis can also be used in traditional Chinese medicine without processing. Certain extract (CBD) of industrial cannabis can be used in cosmetics. Use of CBD or THC extracts in edibles, vaping, tinctures, medicine or food additives is currently not allowed.

A. Are the rules different for medical vs. adult recreational use?

Yes. Under PRC law, recreational use is strictly banned. Though there are no laws prohibiting the use of THC or CBD extracts for medical use, currently no medicine containing THC or CBD has been approved to enter into the market.

B. Are retail sales of any cannabis products restricted to specific retail channels? E.g., medical dispensaries, government-owned stores, etc.

No. As discussed, adult recreational use and medical use is still highly regulated, which means no retail sales of cannabis products in this regard.

C. Are there zoning restrictions on where medical, wellness, or adult-use (recreational) outlets can be located? Applicable to all cannabis products?

No. As discussed, adult recreational, wellness and medical use is still highly regulated. However, there are zoning restrictions on the planting site of industrial cannabis in Yunnan Province. Pursuant to the Regulations of Yunnan Province on License for Planting and Processing Industrial Cannabis, if the planting of hemp is for industrial material provision purpose, the planting site shall be more than 1 km away from tourist attractions and expressways; in case of planting site for seed reproduction, no non-industrial hemp plant within 3km around the planting site is allowed.

7. What import and export is allowed in your jurisdiction?

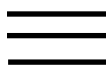
The import and export of THC and CBD is subject to the import or export license for psychotropic substances.

The import and export of hemp seeds is subject to the regulations and permits of competent agriculture and rural affairs authority.

Furthermore, raw or retted hemp, hemp processed but not spun, hemp crude fiber, waste hemp and hemp yarn are allowed to be imported and exported.

A. Are there restrictions in relation to the countries of origin, i.e. which countries of origin are permitted?

No.



B. Please describe restrictions on the import of cannabis seeds.

Hemp seed is specified in the Negative List for Market Access. To import hemp seed, the importer shall meet certain requirements including i) the approval issued by competent agriculture and rural affairs authority; and ii) importing only through designated ports of entry after passing the quarantine inspection.

8. Does your region distinguish between different types of cannabis products? (E.g., high or low concentrations of THC.)

Yes.

A. If so, what distinctions exist?

Depending on the concentrations of THC.

B. If so, briefly describe the differences.

Cannabis with THC content over 0.3% will be classified as marijuana, the planting, and process of which is strictly prohibited. While still highly regulated, the planting, process and selling of industrial cannabis which contains less than 0.3% of THC, have been legalized in Heilongjiang province and Yunnan Province.

C. Identify any related laws that should be considered when answering this question.

Regulations of Yunnan Province on License for Planting and Processing Industrial Cannabis

9. Are there legal requirements on Cannabidiol (CBD) products (without THC)?

Despite high medical value, CBD has not yet been approved to be added as a major active ingredient into medicine in China. Though CBD/THC is recognized in China as major active ingredient of psychotropic substances, currently in Chinese market, no CBD/THC psychotropic substances have been approved to be produced or used.

CBD is not listed as a food additive so far under PRC law.

Hemp seed, oil and leaf extracts are listed as approved materials used in cosmetics. However, the law is silent on whether the extracts refer to CBD and also on the concentration of CBD.

IV. Patients and prescriptions

10. What specific medical conditions, if any, are recognized for treatment with cannabis?

Despite its psychoactive nature and narcosis effect, in China cannabis has not yet been permitted to be used in medical practice.

11. Is there a licensed practitioner requirement in order to prescribe cannabis for medical purposes?

N/A

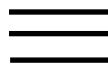
12. Are there patient registration or cardholder requirements?

N/A

V. Special requirements

13. Does your jurisdiction require any recordkeeping from seed planting to the time of end user sale? For all cannabis products?

Yes. In Yunnan Province, entities engaged in planting or processing of industrial cannabis shall be equipped with a sound recording system to keep relevant information (including source, storage, disposition, sale, etc.)



on record for at least three years. While in Heilongjiang Province, entities engaged in planting or processing of industrial cannabis shall report to local PSB at county level within 10 working days following any planting, processing or selling activities with respect to the source, purposes, quantities, sales, etc.

14. Are special taxes imposed? On what and when?

No.

15. Are there any special rules or limitations that apply to the industry? E.g., banking, patent or trademark protection, labeling requirements.

No special rules or limitations except that, in Yunnan Province, technology transfer by companies licensed to process flower or leaf of industrial cannabis shall be reported to the competent public security authority on a semi-annual basis.

16. What is the legal status of access to financial services, including banking, merchant services, and cash handling?

No special requirements in terms of financial service to such industry. However, in Yunnan and Heilongjiang, industrial cannabis is an encouraged business sector supported by local governments. In this respect, financing may be less difficult.

17. Is data collected to determine the social or health impact of the rules in your jurisdictions? E.g.,

A. Impact on use by under age/minors.

B. Impact on beer, wine and spirit sales.

C. Tax revenue.

D. Impact on crime, including drug and alcohol addiction.

No. As discussed, only industrial cannabis with less than 0.3% THC is allowed in China (and in Yunnan and Heilongjiang only) and is mainly for industrial purposes. Therefore, there is no meaningful social or health impact of the rules in China.

VI. Risks and enforcement

18. What are the most critical issues currently facing the industry in your jurisdiction?

Overall, the cannabis industry is still highly regulated in China. The scope of legitimate use of CBD, one of the most valuable extracts of industrial cannabis, is very limited and unspecified. As mentioned above, CBD has not yet been approved to be added as a major active ingredient into medicine or food additive in China, in despite of its high medicinal value and wellness value. Besides, CBD's use in cosmetics remains unclear and unspecified.

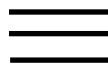
19. What is the current enforcement landscape with respect to cannabis? E.g., strict enforcement, low-enforcement, decriminalization, legalization.

Strict enforcement of marijuana throughout the country and strict enforcement of industrial cannabis in regions other than Yunnan Province and Heilongjiang Province; industrial cannabis legalized but strictly regulated in Yunnan Province and Heilongjiang Province.

A. Does enforcement differ based on quantity?

Yes, pursuant to the PRC Criminal Law, the criminal responsibility for the drug-related crimes normally depends on the quantity of drugs, including cannabis.

Any person who smuggles, trades, transports, carries, produces or illegally possesses marijuana may be criminally punished. Depending on the quantities, the depending on the quantity, the punishment could range from fixed term imprisonment (or criminal detention or public surveillance) of no more than 3 years to life imprisonment, in addition to fines.



In addition, whoever illegally cultivates cannabis shall be forced to uproot the plants, and in the event that the quantity of the cannabis plants exceeds 5,000 but less than 30,000, the offender could be sentenced to a fixed term imprisonment (or criminal detention or public surveillance) of no more than 5 years, in addition to fines. In case the quantity exceeds 30,000, the imprisonment could be more than 5 years. However, voluntary uprooting of the plants before harvesting shall be exempted from punishment.

Illegally trading, transporting, carrying or possessing hemp seeds which have not been inactivated may be criminally punished for a fixed term imprisonment (or criminal detention or public surveillance) of no more than 3 years.

B. Does enforcement differ based on product type?

Yes, enforcement does vary with different product types, generally, higher concentration of THC, stricter the enforcement. But it also varies with regions.

VII. Your practice and useful links

20. Tell us a little about your cannabis practice and how it interacts with other practices at your firm. Remember to include any recognition awards your firm has received in this practice area. How much experience does your firm have providing services to cannabis companies and how much interest does your firm have to grow its cannabis practice?

Given the various legal impediments in this industry, there are few law firms specializing in this practice. However, our law firm, as one of the largest full-service law firms, has relevant professional teams focusing on government regulations and business development of cannabis. We are of the view that industrial cannabis is still in the start-up stage in China with enormous potential and we are very much delighted to take a part in this promising business sector.

We are representing a foreign client to set up two joint ventures in China partnered with a qualified Chinese company to engage in industrial cannabis covering full industry chain, including import and cultivation of hemp seeds, planting of hemp, extraction of CBD and research and development of CBD application (initially in cosmetics which is the only legitimate CBD application so far in China).

21. Please provide links to any firm website, blogs, reputable trade publications, or attorneys that would help others understand the state of the law in your jurisdictions.

- Drug Control Authorities: there shall be strict regulations on the application of industrial cannabis
- A Brief Introduction to China's Regulatory Regime for Cannabis
- Regulatory Framework of Industrial Cannabis
- Introduction to CBD Policies in China

A. Are there any relevant trade organizations?

China Bast and Leaf Fibers Textile Association

B. Are there any relevant lobbying organizations?

No.

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