

STAFF QUARTERS

According to a composite service agreement entered into between the Company and the holding company on 16 May 1997, the Company shall pay rent to the holding company in respect of the provision of housing for the employees of the Company. The rent was determined with reference to the actual costs incurred and shall be borne between the Company and the holding company on a pro rata basis according to their respective number of employees. The Company did not own any staff quarter.

According to the document (94) Cai Zong Zi No. 126 issued by the Ministry of Finance, the Company issued a notice of corporate housing reserves system. From 1999, the Company has provided its staff with a housing reserve contribution scheme in which 5% of the salary of the staff is contributed. For the six months ended 30 June 2001, the contribution for the housing reserves of the Company amounted to approximately RMB3.52 million (the same period last year: RMB3,260,000) together with salary was paid to the staff. Save as aforesaid, the Company has no other payment obligations and has not committed to or made other ways of allowance for purchase or lease of houses for the staff.

The State Ministry of Finance issued the document Cai Qi (2000) No. 295 on 6 September 2000 and it is related to the financial arrangement in corporate housing system reform and is effective from the date of issue. The Board of Directors of the Company considered the policy and is of the opinion that there is no such financial arrangement existed in its corporate housing system reform. Therefore, the policy will not have material impact on the Company.