

FINANCIAL ARRANGEMENT FOR HOUSING POLICY REFORM

According to the document CQ [2000] No. 295 issued by the Ministry of Finance of the PRC on 6th September 2000. "Notice on the issues of the accounting treatment with respect to the reform on enterprises' staff housing system", all State-owned enterprises other than those in the financial services industry should stop the physical allocation of staff quarters and implement the staff housing welfare fund system. These enterprises are also required to pay an one-off housing subsidy in cash to those staff who joined the work force prior to 31st December 1998 and have yet to receive physical allocation of staff quarters. The document required provincial and municipal governments to take responsibility for setting out the detailed regulations with respect to the timing and procedures for the implementation of the policy as required by the above document.

Prior to the establishment of the Company, the Holding Company had changed its housing scheme and implemented the housing welfare fund system in accordance with the requirements as stipulated in the document YZGF [1994] No. 05 issued by the Housing Policy Reform Leadership Committee of the Chongqing Finance Bureau in 1994. The Holding Company and its staff each contributes to the staff housing welfare fund based on a percentage of the staff salaries. The staff housing welfare fund is owned by the staff and is administered by the Housing Fund Administrative Committee in Chongqing. After the Restructuring in 1997, the Company has been making contributions to the staff housing welfare fund in accordance with the above mentioned document.

As at the date of this report, the Chongqing Finance Bureau has not yet issued any detailed arrangements and regulations for the implementation of the policy as required by the above document CQ [2000] No. 295. In the event that the Chongqing Finance Bureau implements the document CQ [2000] No. 295 mentioned above, the Company estimates that the housing subsidy in connection with those employees who joined the Company prior to 31st December 1998 and have yet to receive physical allocation of staff quarters will be approximately Rmb6 million. The Holding Company has undertaken to assume the liabilities that may arise as mentioned above, and will directly pay the relevant housing subsidy to those qualified employees.

In view of the above, the Company has not provided for any housing subsidy in the interim accounts for 2001.