
TAXATION AND EXCHANGE CONTROL

GENERAL

The taxation of income and capital gains of the Company and its subsidiary, if any, is subject to the fiscal law and practice of Hong Kong. The following summary of the anticipated tax treatment generally applicable to the Company and its subsidiary (if any) in Hong Kong is based on current law and practice subject to changes therein and does not constitute legal or tax advice. Prospective investors should consult their own professional advisers on the tax implications of investing, holding or disposing of Shares or of exercising any rights attached to them under the laws of the jurisdiction in which they are liable to taxation.

Hong Kong

The Company will be subject to tax in Hong Kong if it carries on business in Hong Kong and derives profits arising in or derived from Hong Kong from such business. In that case, it will be subject to profits tax, currently imposed at a rate of 16% in respect of the fiscal year 2001/2002 on any profits (including interest) which arise in or are derived from Hong Kong. Capital gains and offshore profits are not taxable.

In this regard, profits from the offshore disposal of shares listed or registered outside Hong Kong may in certain circumstances be considered as derived from outside Hong Kong and would, therefore, not attract a Hong Kong profits tax liability.

Under current law and practice in Hong Kong, no tax will be payable by the Company in respect of dividends paid by the Company. Gains arising on the sale of Shares will be subject to profits tax where derived by certain persons carrying on a trade, profession or business of share dealings in Hong Kong.

Hong Kong stamp duty, currently at the rate of HK\$1.00 per HK\$1,000, or part thereof, of the consideration or its value will be payable by the buyer on every purchase, and also by the seller on every sale, of the Shares (that is, a total of HK\$2.00 per HK\$1,000 is currently payable on a typical sale and purchase transaction). In addition a fixed duty of HK\$5 is currently payable on any instrument of transfer of Shares.

Cayman Islands

The Government of the Cayman Islands will not, under the existing legislation, impose any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax upon the Company or the Shareholders. The Cayman Islands are not a party to any double taxation treaties.

The Company has obtained an undertaking from the Governor-in-Council of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, for a period of twenty years from 25th September, 2001, being the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations and, in addition, that no tax to be levied

TAXATION AND EXCHANGE CONTROL

on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the Shares, debentures or other obligations of the Company or (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concession Law (1999 Revision) of the Cayman Islands.

The PRC

The information set out below is a summary of the principal areas of the PRC taxation and fees which are likely to be relevant to the investments of the Company in the PRC.

Income Tax on FIEs

Under the Foreign Investment Enterprises and Foreign Enterprises Income Tax Law (“外商投資企業和外國企業所得稅法”) and the Detailed Rules for the Implementation on the Foreign Investment Enterprises and Foreign Enterprises Income Tax Law (“外商投資企業和外國企業所得稅法實施細則”) which came into effect on 1st July, 1991, FIEs are required to pay national income tax at a rate of 30% of their taxable income and local income tax at a rate of 3% of their taxable income.

A joint venture engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two years commencing from the first profit making year and a 50% reduction in the income tax payable for the next three years. The income tax concession for foreign invested enterprises engaged in the exploitation of resources such as petroleum, natural gas, rare metals and precious metals are regulated separately by the State Council.

FIEs established in special economic zones, entities established by foreign enterprises in special economic zones engaged in production or business operations and FIEs engaged in production in economic and technological development zones may pay income tax at a reduced rate of 15%. FIEs engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24%. A reduced income tax rate of 15% may apply to FIEs established on coastal economic open zones or on the old urban districts of cities where the special economic zones or the economic and technological development zones are involved in such areas including energy, communication, harbour, wharf or other projects encouraged by the State.

Losses incurred in a tax year may be carried forward for not more than five years.

The governments of provinces, autonomous regions and centrally supervised municipalities may grant exemptions or reduce the local income tax for a FIE engaged in an industry or a project encouraged by the State.

Business tax

In accordance with the Provisional Rules of the PRC on Business Tax and the Detailed Rules for the Implementation of the Provisional Rules of the PRC on Business Tax, which came into effect from 1st January, 1994, businesses that provide services (other than entertainment, finance and insurance business), assign intangible assets or sell immovable property are liable to business tax at the rate of between 3% and 5% of the value of the services provided and additional charges collected in providing such services, intangible assets assigned or immovable property sold, as the case may be. Entertainment and finance and insurance business are subject to business tax at the rate of between 5% to 20% of the value of the services provided and additional charges collected in providing such services. The amount of tax payable is calculated by reference to the business turnover of the taxpayer and the relevant scale stipulated in the Schedule to the Provisional Rules of the PRC on Business Tax.

Taiwan

A foreign investor may invest in Taiwanese shares through (1) portfolio investments and (2) equity investments. Portfolio investments can be made by qualified foreign institutional investors (“QFII”) and general foreign investors (“GFI”) meeting criteria set forth by the Securities and Futures Commission of Taiwan. Equity investments can be made by foreigner (“FIA Investor”) with the approval from the Investment Commission. Portfolio investments are deemed as short-term investments made with the purpose of earning capital gains. Equity investments are deemed as long-term investments made with the purpose of participating in the operation and management of the target company and enjoying the capital growth of the target company.

Tax in respect of the deposition of investment in Taiwanese shares

Securities transaction tax, currently at the rate of 0.3% of the gross amount received for sale of shares, is payable by the seller and will be withheld upon a sale of shares by the securities broker. Under current Taiwan law, capital gains on transactions in Taiwan shares are exempt from income tax.

Tax in respect of dividends and/or distributions

For investments through the QFII, GFI or FIA Investor channels, dividends (whether in cash or stock) declared by the investee out of retained earnings and distributed to the investor in respect of the invested shares are subject to Taiwan withholding tax, currently at the rate of 20%, on the amount of the distribution (in the case of cash dividends) or on the par value of the shares (in the case of stock dividends). Currently, distributions of shares declared by the investee out of capital reserves are not subject to Taiwan withholding tax.

Stamp duty or levies

No stamp duty or levies accrue in relation to the investor’s investment in Taiwan securities.

EXCHANGE CONTROL

The PRC

The relevant rules governing exchange control relating to the inflow and outflow of foreign exchange are contained primarily in the Regulations of Foreign Exchange Control (as amended) promulgated on 29th January, 1996 and effected on 1st April, 1996.

In summary, all foreign exchange receipts (from capital injection or sales) must be deposited in the foreign exchange account opened with the designated bank approved to operate foreign exchange business by SAFE. Foreign exchange under current account items (such as dividends and profits) can be remitted abroad upon presentation of necessary documents, including auditors' report, capital verification report, foreign exchange registration certificate and tax certificate as well as other documents required by SAFE. Foreign exchange under capital account items (such as interest and repatriation of capital) may be remitted abroad upon presentation of necessary documents and subject to approval of SAFE.

Currently, foreign investment enterprises may settle, buy and sell foreign currencies through a designated bank operating foreign exchange businesses.

Hong Kong

There are no foreign exchange controls in force in Hong Kong, and the Hong Kong dollar is freely convertible into other currencies.

Since 17th October, 1983, the Hong Kong dollar has been linked to the US dollar. The link is maintained through the mechanism of certificates of indebtedness which are used by the three Hong Kong banknote-issuing banks as cover for banknote issues. The certificates are issued and redeemed by the Hong Kong Exchange Fund only against payment in US dollars at a fixed exchange rate of HK\$7.80 to US\$1.00. The free market exchange rate of the Hong Kong dollar against the US dollar for the non-bank public is determined by supply and demand, but has not deviated significantly from the fixed exchange rate.

On 5th September, 1998, the government of Hong Kong announced seven technical measures to improve the way the linked exchange rate is managed. These measures came into effect on 2nd September, 1998. These measures are intended to strengthen the currency board arrangement and to stabilise unusual local interest rate movements. The measures include the provision by the Hong Kong Monetary Authority of a convertibility undertaking to all licensed banks in Hong Kong to convert Hong Kong dollars in their clearing accounts into US dollars at a fixed rate of HK\$7.75 to US\$1.00.

Taiwan

The Taiwan dollar (New Taiwan dollar or “NT\$”) is freely convertible into other currencies subject to limited foreign exchange controls by the Central Bank of China (“CBC”):

- (a) Revenues and expenses from the trading of commodities and services can be converted between NT\$ and other foreign currencies without CBC’s approval.
- (b) Revenues and expenses from investments that have been approved by the government can be converted between NT\$ and other foreign currencies without CBC’s approval. Repatriation of stock dividends, investment capital and capital gains needs to be approved by the Investment Commission of the Ministry of Economic Affairs and other government authorities.
- (c) Capital revenues and expenses from trade (such as advance receipts, advance payments, accounts receivable, and accounts payable resulting from the transaction of goods) can be converted between NT\$ and other foreign currencies without CBC’s approval.
- (d) Resident individuals and companies established in Taiwan may freely apply for foreign exchange settlements of up to US\$5 million and US\$50 million, respectively, per year without CBC approval but if the amount exceeds US\$500,000, a declaration of purpose and the supporting documents will be required.
- (e) Non-residents may make remittances not exceeding US\$100,000 per remittance.