

## TAXES APPLICABLE TO US AS A PRC COMPANY

*Income Tax*

Under the Provisional Regulations of Income Tax for Domestic Companies (中華人民共和國企業所得稅暫行條例) effective from January 1, 1994 and as stipulated by the State Council, we are required to pay income tax at a rate of 33% on taxable income derived from our business activities, unless a lower rate is provided by law, administrative regulations or State Council regulations.

*Value Added Tax (“VAT”)*

The Provisional Regulations of VAT (中華人民共和國增值稅暫行條例) and the Details of Provisional Regulations of VAT (中華人民共和國增值稅暫行條例實施細則) (effective from January 1, 1994) require us to pay VAT. “General” tax payers, as certified by local tax bureaus, are required to pay 17% or 13% (in certain limited circumstances) VAT, depending on the product type. “Small sized” tax payers, as certified by local tax bureaus, are required to pay 6% VAT.

According to the Provisional Regulations of the PRC on Value-Added Tax and Detailed Rule for the Implementation of the Provisional Regulation of the PRC on Value-Added Tax, the VAT rates:

- (i) For taxpayers selling or importing the following goods: food grains, edible vegetable oils, tap water, heating, air conditioning, hot water, coal gas, liquefied petroleum gas, natural gas, coal/charcoal products for household use, books, newspapers, magazines, feeds, chemical fertilizers, agricultural chemicals, agricultural machinery, covering plastic film for farming and other goods as regulated by the State Council, the tax shall be 13%;
- (ii) For taxpayers exporting goods, the tax rate shall be 0% except as otherwise stipulated by the State Council;
- (iii) For taxpayers selling or importing goods, other than those stipulated in items (i) and (ii), the tax rate shall be 17%;
- (iv) For taxpayer providing processing and replacement services (as ‘taxable services’), the tax rate shall be 17%;
- (v) The rate leviable on the small-scale taxpayers (the annual sales amount of the taxpayer subject to VAT is below Rmb 1 million or the annual taxable sales amount of the taxpayer is below Rmb 1.8 million) selling goods or taxable services shall be 6%.

*Business Tax*

The Provisional Regulations of Operation Taxes (中華人民共和國營業稅暫行條例) and the Details of Provisional Regulations of Operation Taxes (中華人民共和國營業稅暫行條例實施細則) effective from January 1, 1994, stipulate that as a business engaged in labor services, transfers of intangible assets and sale of real estate, we are required to pay 3% to 20% business tax on our gross business turnover.

## TAXATION OF OUR SHAREHOLDERS

*Tax on Dividends*

**PRC.** On July 21, 1993 the PRC State Administration of Taxation, by a notice (the “Notice Relating to Taxes Applicable to Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from the Holding and Transferring of Shares”) (the “Tax Notice”) (國家稅務總局關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知) clarified that dividends received by holders of our H Shares were exempt from income tax.

**Hong Kong.** Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong on dividends paid by us.

*Tax on the Transfer of Shares*

**PRC.** According to the Tax Notice, the net incomes by individual foreigners from the transfer of H shares are exempt from income tax.

**Hong Kong.** Under the current Hong Kong tax regime, no tax will be imposed on capital gains from the sale of our H Shares. Trading gains from the sale of our H Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed at the rate of 16% on corporations and at a maximum rate of 15% on individuals. Gains from sales of our H Shares effected on the Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of our H Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

*Stamp Duty*

**PRC.** By virtue of the Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System (關於股份制試點企業有關稅收問題的暫行規定), taking effect on January 1, 1992, and the Interim Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行規定) taking effect on October 1, 1988, transfers of our H Shares outside the PRC (including Hong Kong, Taiwan and Macau) are exempt from the payment of PRC stamp duty.

**Hong Kong.** Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of our H Shares registered on the H Share register in Hong Kong. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% will be payable on a typical sale and purchase transaction of our H Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5. Where a sale or purchase of our H Shares registered on the H Share register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract notes is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon and the transferee shall be liable to pay such duty. No stamp duty will be levied on the transfer of our H Shares that are registered on a share register outside Hong Kong.

*Estate Duty*

**PRC.** No PRC liability for estate tax under PRC law will arise from non-PRC nationals holding H Shares.

**Hong Kong.** Estate duty is imposed upon the principal value of property situated in Hong Kong passing on the death of a person. Our H Shares will be regarded as property situated in Hong Kong for estate duty purposes if they are registered on the H Share register at the time of death. Hong Kong estate duty is imposed on the principal value of a deceased's estate at graduated rates from 5% to 15%. Based on the current assessment schedule, no estate duty is payable where the principal value of the dutiable estate does not exceed HK\$7.5 million. The maximum rate of 15% applies where the principal value exceeds HK\$10.5 million. No estate duty will be levied on our H Shares that are registered on a share register outside Hong Kong at the time of death.