

Taxation of Dividends

Individual Investors. According to the Individual Income Tax Law of the PRC of 1980 as amended on 31 October, 1993, 30 August, 1999 and 19 December, 2005, dividends paid by PRC companies are subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not resident of the PRC, the receipt of dividends from a company in the PRC is subject to a withholding tax of 20% unless reduced by an applicable tax treaty or specifically exempted by the tax authority of the State Council. However, the PRC State Administration of Taxation (“SAT”) issued, on 21 July, 1993, a Notice of the PRC State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (“Tax Notice”) which states that dividends paid by a PRC company to individuals with respect to shares listed on an overseas stock exchange (“Overseas Shares”), such as H Shares, are temporarily not subject to PRC withholding tax.

The Standing Committee of the National People’s Congress’ Decision on the Amendments to the Individual Income Tax Law of the PRC (the “Amendments”) were promulgated on 19 December, 2005 and took effect on 1 January, 2006. The Amendments state that all provisions of any contradictory prior regulations concerning individual income tax which are contradictory to the Amendments shall become invalid upon the entering into effect of the same. Pursuant to the requirements of the Amendments and the amended Individual Income Tax Law and the Implementation Rules of the Individual Income Tax Law, foreign individuals are subject to a withholding tax on dividends paid by a PRC company at a rate of 20%, unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty. However, in a letter dated 26 July 1994 to the State Commission for Restructuring the Economic Systems of the PRC, the Securities Commission and CSRC, the SAT reiterated that the temporary tax exemption as specified in the Tax Notice for dividends received from a PRC company listed overseas should remain effective. In the event that this temporary tax exemption is revoked, a 20% tax may be withheld on dividends in accordance with the Individual Income Tax Law (as amended) and its Implementation Rules. Such withholding tax may be reduced pursuant to an applicable double taxation treaty. To date, the relevant tax authority has not been collecting any withholding tax on dividend payments on Overseas Shares.

Non-individual Investors. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises, dividends paid by PRC companies other than foreign investment enterprises to foreign enterprises (including foreign companies and other economic entities) are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise (including foreign companies and other economic entities) receiving dividends paid with respect to a PRC company’s Overseas Shares will temporarily not be subject to the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced pursuant to an applicable double taxation treaty.

Tax Treaties. Investors who are not PRC residents and reside in countries which have entered into double-taxation treaties with the PRC, may be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company. The PRC currently has double-taxation treaties with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Under each of such double taxation treaties, the rate of withholding tax imposed by PRC’s taxation authorities is generally reduced.

Taxation of Capital Gains

Individual Investors. According to the Individual Income Tax Law of the PRC (as amended), and the Implementation Rules of the Individual Income Tax Law of the PRC, gains realized on the sale of equity interests would be subject to income tax at a rate of 20%. The Ministry of Finance has been empowered by the Implementation Rules of the Individual Income Tax Law of the PRC to formulate the detailed implementing measures for levying the individual income tax on the gains realized on the sale of shares in PRC companies. However, to date, no such implementing measures have been promulgated by the Ministry of Finance, and no individual income tax on gains realized on sales of shares has been levied.

Pursuant to the notice jointly issued by the Ministry of Finance and the SAT dated March 30, 1998, in respect of suspending the enforcement of the collection of the individual Income tax on gains realized in connection with sales of shares, gains on sales of shares by individuals are temporarily exempted from individual income tax. In addition, the Tax Notice provides that gains realized by foreign individuals on the sale of overseas shares, such as H Shares, are temporarily not subject to PRC income tax. In the event that such temporary exemption ceases to be effective, individual holders of H Shares may be subject to income tax at a rate of 20% on capital gains, unless such tax is reduced or eliminated by an applicable double taxation treaty.

Non-individual Investors. The Tax Notice provides that gains realized by foreign enterprises, not including their entities or establishment in the PRC, that are holders of H Shares would, temporarily, not be subject to PRC income taxes.

Stamp Duty

PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies should not apply to the acquisition and disposal by non-PRC investors of H shares outside of the PRC by virtue of the Provisional Regulations of China Concerning Stamp Duty, which became effective on 1 October 1988 and which provide that PRC stamp duty is imposed only on documents, executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate Duty

The PRC does not currently have estate duty law.

Corporate Income Tax

On the Company. The PRC Provisional Regulations on Enterprise Income Tax stipulate that enterprises (including joint stock limited companies) incorporated in the PRC (except for foreign investment enterprises) will pay enterprise income tax at a rate of 33% on income earned from production and operations, and on other income, with tax concessions available where laws and regulations have provided for tax exemption or reduction.

Value-add Tax

The PRC Provisional Regulations on Value-added Tax (“the VAT Regulations”) were promulgated on 13 December 1993 and became effective on 1 January 1994. The VAT Regulations apply to domestic and foreign investment enterprises that sell goods, provide processing or repair and replacement services or import goods in the PRC. Except for certain specified categories of goods sold or imported the value-added tax rate for the sale or import of which is 13%, the tax rate for sales or import of goods and provision of processing and repair and replacement services is 17%. The amount of tax payable on the sale of goods or the provision of

taxable services is the balance of the amount of tax on sales for the current period after deducting or setting off the amount of tax on purchases for the current period.

Business Tax

Pursuant to the PRC Provisional Regulations on Business Tax, which became effective on 1 January, 1994, the enterprises (including foreign investment enterprises) and individuals that provide various labor services and that assign intangible assets or sell immovable property in the PRC shall be subject to the business tax either at the rate of three percent or at five percent of the amount of taxable services or other transactions, except for entertainment business the turnover of which is subject to the business tax at a rate of 5%-20%.

FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31 December 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, foreign currencies and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center first had to obtain the approval from the SAFE.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (the "Notice"), effective from 1 January 1994. The Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On 26 March 1994, the PBOC promulgated the "Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Provisional Regulations"). The Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On 1 January 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-US dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

On 29 January 1996, the State Council promulgated new Regulations of the People's Republic of China for the Control of Foreign Exchange ("Control of Foreign Exchange Regulations") which became effective from 1 April 1996. The Control of Foreign Exchange Regulations classify all international payments

and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on 14 January 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the “Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange” (the “Settlement Regulations”) which became effective on 1 July 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-invested Enterprises (the “Announcement”). The Announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On 25 October 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business with effect from 1 December 1998. According to the Notice, all foreign exchange swapping business in the PRC targeted on the foreign-invested enterprises shall be discontinued, while the trading of foreign exchanges by foreign-invested enterprises shall be carried out under the banking system for the settlement and sale of foreign exchange.

Save for the foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (except for some foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by our Company from the sale of shares overseas) is not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like our Company), may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE and/or the relevant branch must be sought.

Dividends to holders of H Shares are declared in Renminbi but must be paid in Hong Kong dollars.