

MAINLAND CHINA TAXATION

Because we are not incorporated in mainland China, your investment in our Shares is largely exempt from PRC tax laws. But because virtually all of our business operations are in mainland China and we carry out these business operations through operating subsidiaries organized under the PRC law, our PRC operations and our operating subsidiaries in mainland China are subject to PRC tax laws and regulations, which indirectly affect your investment in our Shares.

Dividends from our PRC operations

Under the PRC tax laws effective prior to 1 January 2008, dividends paid by our PRC subsidiaries or joint ventures to us were exempt from PRC income tax. However, pursuant to the PRC Enterprise Income Tax Law and its implementation rules that became effective on 1 January 2008, dividends generated after 1 January 2008 which are payable by foreign invested enterprises, such as subsidiaries and joint ventures in the PRC, to their foreign investors are subject to a withholding tax at a rate of 10%.

Under the new tax law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in the PRC are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. For such PRC tax purposes, dividends from PRC subsidiaries to their foreign shareholders are excluded from such taxable worldwide income. Under the implementation rules of the new Enterprise Income Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Because this tax law is new and its implementation rules are newly issued, there is uncertainty as to how this new law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

Dividends we pay to you

Because we are not incorporated in mainland China, under the PRC tax laws effective prior to 1 January 2008, even though we had significant operating subsidiaries and joint ventures in mainland China, our distribution of dividends to our overseas investors was not subject to PRC tax. The new PRC enterprise income tax law and its implementation rules, however, impose a withholding tax at the rate of 10% on dividends paid to investors that are “non-resident enterprises” (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business) to the extent such dividends are sourced within the PRC. It is not clear whether you will be subject to such PRC withholding taxes as a result. Although a foreign investor has such establishment or place of business in the PRC, such withholding is not applicable if the relevant income is not effectively connected with its establishment or place of business in the PRC. Due to these new provisions in the PRC tax law, despite many uncertainties with respect to their actual intentions and practical effects, if we are considered a PRC resident enterprise, the dividends we pay with respect to our Shares may be treated as income derived from sources within the PRC and be subject to the PRC withholding tax.

Transfer or disposition of our Shares

As we are not incorporated in mainland China, under the PRC tax laws, any transfer or disposition of our Shares by an overseas investor did not trigger PRC tax liabilities. The new PRC enterprise income tax law and its implementation rules, however, impose a withholding tax at the rate of 10% on capital

gains realized by investors that are “non-resident enterprises,” to the extent such gains are sourced within the PRC. It is not clear whether you will be subject to such PRC withholding taxes as a result. A non-resident enterprise for such tax purposes is defined to include any non-PRC incorporated enterprise that does not have an establishment or place of business in the PRC. Any gain realized on the transfer of Shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Due to these new provisions in the PRC tax law, despite many uncertainties with respect to their actual intentions and practical effects, if we are considered a PRC resident enterprise, the gain you may realize from the transfer of our Shares, may be treated as income derived from sources within the PRC and be subject to the PRC income tax.

Our operations in mainland China

Our subsidiaries through which we conduct our business operations in mainland China are subject to PRC tax laws and regulations, which include the following:

Enterprise Income Tax

Under the Interim Regulation of the People’s Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例) and the Income Tax Law of the People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法), PRC subsidiaries are generally subject to the 33% enterprise income tax. But according to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (No. 63 Order of the President of the PRC) enacted by the National People’s Congress on 16 March 2007 and enforced from 1 January 2008 onwards, and Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (No. 512 Order of the State Council of the PRC) enacted on 6 December 2007 and enforced from 1 January 2008 onwards, a uniform income tax rate of 25% will be applied towards foreign investment and foreign enterprises which have set up institutions or facilities in the PRC as well as PRC enterprises. Enterprises are classified into resident and non-resident enterprises. The term “resident enterprise” refers to an enterprise which is established within the territory of the PRC, or which is established under the law of a foreign country (region) but whose actual institution of management is within the territory of the PRC. The term “non-resident enterprise” refers to an enterprise established under the law of a foreign country (region), whose actual institution of management is not within the territory of the PRC but which has institutions or establishments within the territory of the PRC; or which has not any institution or establishment within the territory of the PRC but which has incomes sourced in the PRC.

Business Tax

Under the PRC Interim Regulation on Business Tax (中華人民共和國營業稅暫行條例) of 1994, services in mainland China are subject to business tax. Business tax rate ranges from 3% to 20% and depending on the type of services provided. Our lease and transfer of the operation rights of the underground civil air defense attract a business tax at the rate of 5% of the turnover of the selling enterprise payable to the relevant local tax authorities.

FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. SAFE, under the authority of the People's Bank of China (央行) (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 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, the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center had to obtain the prior approval of the SAFE.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the "Notice of the PBOC Concerning Further Reform of the Foreign Currency Control System" (中國人民銀行關於進一步改革外匯管理體制的公告), effective from 1 January 1994. The notice announced the abolition of the foreign exchange quota system, 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 on the Administration of Settlement, Sale and Payment of Foreign Exchange" (結匯、售匯及付匯管理暫行規定) (the "Provisional Regulations"), which set out detailed provisions regulating the trading 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 of Renminbi. Pursuant to such systems, the PBOC sets and publishes the daily Renminbi-US dollar exchange rate. Such 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. Also, the PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by the PBOC.

On 29 January 1996, the State Council promulgated "PRC Regulations on the Control of Foreign Exchange" (中華人民共和國外匯管理條例) ("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. Current account items are no longer subject to SAFE approval while capital account items are still subject to SAFE approval. The Control of Foreign Exchange Regulations were subsequently amended on 14 January 1997. Such amendment affirms that the State shall not restrict international current account payments and transfers.

On 20 June 1996, PBOC promulgated the “Regulations on Administration of Settlement, Sale and Payment of Foreign Exchange” (結匯、售匯及付匯管理規定) (the “Settlement Regulations”) which became effective on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations and abolished 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 published the “Announcement on the Implementation of Foreign Exchange Settlement and Sale Banks by Foreign-invested Enterprises” (外商投資企業實行銀行結售匯工作實施方案). 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, and specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On 25 October 1998, PBOC and SAFE promulgated the “Notice Concerning the Discontinuance of Foreign Exchange Swapping Business” (關於停辦外匯調劑業務的通知) pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprises shall be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

On 21 July 2005, the PBOC announced that, beginning from 21 July 2005, the PRC will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. The PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of the Renminbi on the following business day. Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in the PRC (except for 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 is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in the PRC (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 convert and pay at the designated foreign exchange banks, upon presentation of valid receipts and proof. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with the relevant regulations, are required to pay dividends to shareholders in foreign currencies, may with the approval 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 or its competent branch.

On 21 October 2005, SAFE issued the “Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Resident to Engage in Financing and Inbound Investment via Offshore Special Purpose Companies” (關於境內居民通過境外特殊目的公司境外融資及返程投資外匯管理有關問題的通知) which became effective as at 1 November 2005. According to the notice, “special purpose company” (特殊目的公司) refers to the offshore company established or indirectly controlled by the PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprise. Prior to the establishing or assuming control of such special purpose company, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to file or update the registration with the local branch of SAFE within 30 days after any material change happened, which is involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest, with respect to that offshore company. The notice applies retroactively. As a result, PRC residents who have established or acquired control of such offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant overseas investment foreign exchange registration procedures by 31 March 2006.

On 25 December 2006, the PBOC announced the “Measures on the Administration of Individual Foreign Exchange” (個人外匯管理辦法), and on 5 January 2007, SAFE issued the “Notice of the State Administration of Foreign Exchange on Printing and Distributing the Detailed Rules for the Implementation of the Measures on the Administration of Individual Foreign Exchange” (國家外匯管理局關於印發《個人外匯管理辦法實施細則》的通知). According to these regulations, (i) the administration of total annual amount shall apply to individual settlement and domestic individual purchase of foreign exchange. The total annual amount shall be the value equivalent to US\$50,000 for each person every year; (ii) a domestic individual shall make foreign direct investment in accordance with the relevant provisions of the state. As for the required foreign exchange, he/she may purchase foreign exchange or remit the self-owned foreign exchange abroad upon the approval of the local foreign exchange department and shall handle the corresponding formalities for the registration of foreign exchange for overseas investment; (iii) a domestic individual may use foreign exchange or RMB to make financial investment involving overseas regular earnings or rights and interests, etc, through such qualified domestic institutional investors as banks and fund management companies; (iv) where a domestic individual participates in the employee stock ownership plan or stock option plan of an overseas listed company, the foreign exchange business involved shall be handled after the listed company or its domestic agency has filed a unified application and has obtained the approval from the foreign exchange department. The foreign exchange incomes obtained by a domestic individual from selling the stocks under the employee stock ownership plan or stock option plan of an overseas listed company and those from dividend may go through foreign exchange settlement formalities after being remitted to the domestic special foreign exchange account opened by the listed company or its domestic agency, or may be transferred to the employees’ individual foreign exchange savings accounts; and (v) in light of the convertibility progress of RMB under the capital account, the administration of granting loans to overseas individuals, borrowing foreign debts, providing external guarantee and directly participating in transactions involving overseas commodity futures or financial derivative products by domestic individuals shall be gradually loosened, and the specific measures shall be formulated separately.