This appendix contains a summary of laws and regulations in respect of taxation and foreign exchange in Hong Kong and the PRC.

A. TAXATION IN THE PRC

Taxes Applicable to Joint-Stock Limited Companies

Enterprise Income Tax

Enterprise Income Tax Law of the People's Republic of China ("Income Tax Law") was promulgated on March 16, 2007, effective January 1, 2008. The Income Tax Law regulates the rate of enterprise income tax at 25%. Enterprises established before promulgation of the Income Tax Law and entitled to benefit from a preferential tax rate as per the tax laws and administrative regulations then prevailing may gradually shift to the tax rate defined by the Income Tax Law within five years after effectiveness of the Income Tax Law according to requirements of the State Council. Those entitled to the preference of fixed tax holiday or fixed-term tax reductions may continue to benefit in the same manner according to the requirements of the State Council until expiration of the tax holiday or the term of the preference. For those who have not benefited from such preference due to the failure to realize profit, the preference will be applied starting from the effective date of the Income Tax Law, January 1, 2008.

Business Tax

According to the *Provisional Regulations of The People's Republic of China on Business Tax* and the *Detailed Rules for Implementation of the Provisional Regulations of The People's Republic of China on Business Tax*, both of which became effective on January 1, 1994 and first amended on January 1, 2009, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC shall pay business tax. The latest amendments of the abovementioned regulations and rules supplemented the regulatory system in the following aspects:

- Insurance services provided by domestic insurance institutions for exporting goods are exempted from business tax;
- The withholding agent of the business tax should be: (i) the domestic agents of foreign entities or individuals, who provide taxable services, transferring intangible assets or selling estate within the territory of the PRC but have no business institutions in the PRC; or (ii) the assignee of the assets or the purchaser of the services in case there is no domestic agent.
- The column specifying the taxable services and business is deleted from the appendix of the regulations, which enable the Ministry of Finance and the SAT to define the scope of taxable business and services.
- The preferential policies approved by the State Counsil before the effectiveness of the abovementioned amendments on January 1, 2009 could still be applied.

Value-added Tax (VAT)

According to the *Provisional Regulations of the People's Republic of China on Value-added Tax* in effect since January 1, 1994 and *the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax* in effect since December 25, 1993, both of which are first amended on January 1, 2009, all institutions and individuals selling goods or providing processing, repairing or replacement services or importing goods within the PRC shall pay VAT. The tax rate of 13% shall be levied on general taxpayers selling or importing grain, edible vegetable oil, tap water, heating supply, air-conditioning, gas, liquefied petroleum gas, natural gas, marsh gas, coal products for civil use, books, newspapers, magazines, feedstuff, chemical fertilizer, pesticide, farming machines, films for agricultural use and other goods specified by the State Council; the rate applicable to goods exported by taxpayers shall be zero unless otherwise prescribed by the State Council. The rate of 17% shall be levied on taxpayers selling

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or importing goods other than the abovementioned items, and to taxpayers providing processing, repair or replacement services. The rate applicable to goods sold or taxable services provided by small-scale taxpayers is 3% (formerly 6%). A small-scale taxpayer is defined as a taxpayer engaged in the manufacturing of goods or the supply of taxable services, or primarily dealing in the manufacturing of goods or supply of taxable services while concurrently engaged in the wholesale or retail of goods as secondary operations, and has annual taxable sales (hereinafter referred to as "taxable sales") of less than RMB1 million; or a taxpayer engaged in the wholesale or retail of goods and having annual taxable sales of less than RMB1.8 million. Individuals, non-enterprise institutions, and enterprises not frequently incurring taxable activities with annual taxable income beyond the figure set for small-scale taxpayers shall be deemed as small-scale taxpayers for the purpose of VAT payment.

In addition, the new regulations and rules also provide the following:

- The input tax for purchasing fixed assets could be deducted from the output tax;
- The withholding agent of the VAT should be: (i) the domestic agents of foreign entities or individuals, who provide taxable services within the territory of the PRC but have no business institutions in the PRC; or (ii) the assignee of the assets or the purchaser of the services in case there is no domestic agent.
- The preferential policies approved by the State Counsil before the effectiveness of the abovementioned amendments on January 1, 2009 could still be applied.

Stamp Tax

According to the *Provisional Regulations of the People's Republic of China on Stamp Duty and the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Stamp Tax* as brought into effect on October 1, 1988, all institutions and individuals executing or receiving taxable documents within the PRC shall pay stamp tax. The list of taxable documents includes purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents that resemble a contract in nature, title transfer deeds, business account books, certificates of rights, licenses and other taxable documents specified by the Ministry of Finance.

Taxes Applicable to Shareholders of Companies

Dividend-related Tax

According to the *Law of the People's Republic of China on Individual Income Tax* brought into effect on September 10, 1980 and the first amendment on October 31, 1993, second amendment on August 30, 1999, third amendment on October 27, 2005 and latest amendment on June 29, 2007, individual income tax at the rate of 20% shall be levied on dividends of [●] shares received by any and all foreign individuals that are non-Chinese residents. However, according to the terms of the *Circular on Questions Concerning Tax on the Profits Earned by Enterprise with Foreign Investment, Foreign Enterprises and Foreign Individuals From Transfer of Stocks (Stock Rights) and on Dividend Income* as promulgated by the State Administration of Taxation on July 21, 1993 (hereinafter referred to as the "Taxation Notice"), the income from dividends (bonuses) received by foreign enterprises and foreign individuals who hold B-shares or overseas shares from China's domestic enterprises which issue B-shares or overseas shares, is temporarily exempted from enterprise income tax and individual income tax. Furthermore, it is specified in the *Letter of the State Administration of Taxation concerning Taxation Issues of Dividends Received by Foreign Individuals Holding Shares of Companies Listed in China* as promulgated by the State Administration of Taxation on July 26, 1994 that dividends (capital bonuses) received by foreign individuals holding B-shares or overseas shares (including H-shares) from Chinese enterprises issuing such shares are temporarily exempted from individual income tax.

As of yet, the tax authority in charge has not imposed any individual income tax upon dividends of overseas shares. Individual income tax, therefore, is temporarily exempted or reduced for dividends or other distributions of H-shares held by any foreign enterprises or foreign individuals according to the prevailing PRC laws and regulations.

According to the *Circular on Questions Concerning Withholding and Remitting Enterprise Income Tax for Dividends Received by Oversea H-share Holders (Enterprise shareholders) from Chinese Resident Enterprises* (關于中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知)(國稅函[2008]897號) issued by the State Administration of Taxation on November 6, 2008, enterprise income tax at the rate of 10% shall be levied on dividends of H-shares of 2008 and thereafter received by any oversea enterprise shareholders that are non-Chinese residents from Chinese resident enterprises.

Share transfer-related tax

According to the Law of the People's Republic of China on Individual Income Tax as brought into effect on September 10, 1980 and amended four times on October 31, 1993, August 30, 1999, October 27, 2005 and June 29, 2007, respectively, proceeds received from sale of capital securities by any non-Chinese resident individual shall be levied an individual income tax of 20%. However, according to the Taxation Notice, income tax is temporarily exempted for net income obtained by foreign enterprises through transferring B-shares or overseas shares (including H-shares) issued by Chinese enterprises and not held by the foreign enterprises' organizations or related business entities within the territory of the PRC, and for income received by foreign individuals from transfers of their B-shares or overseas shares (including H-shares) issued by Chinese enterprises. Furthermore, pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation concerning the Continued Individual Income Tax Exemption for Individuals' Proceeds from Share Transfers which came into effect on March 30, 1998, and effective since January 1, 1997, individual income tax exemption is continually valid from individuals' transfers of shares of public companies.

Estate duty or inheritance tax

There is no estate duty or inheritance tax levied in China at present.

Stamp Tax

According to the terms of the *Provisional Regulations of the People's Republic of China on Stamp Duty*, the applicable stamp tax of the PRC on transfers of shares of PRC public companies shall not apply to purchases and dispositions of H-shares that take place outside the PRC. The Provisional Rules provide that PRC stamp tax shall be only levied on all the types of documents executed or received and legally bound within the territory of the PRC and protected under the PRC laws.

PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL

The foreign exchange control system of China has experienced a number of reforms and the current system contains three major regulatory laws and regulations since 1993. The People's Bank of China ("PBC"), as authorized by the State Council, promulgated the *Announcement Concerning Further Reformation of the Foreign Exchange Control System* on December 28, 1993, which was brought into force on January 1, 1994. The *Regulations of the People's Republic of China on Management of Foreign Exchanges* ("Foreign Exchange Regulations") promulgated by the State Council, implemented on April 1, 1996, first amendment on January 14, 1997 and latest amendment on August 6, 2008, applies to the receipts, payments or business activities in China that are transacted in foreign currencies by domestic institutions, individuals, foreign institutions and foreign individuals visiting China. The *Regulations on Control of Foreign Exchange Settlements, Sales and Payments* issued by PBC on June 20, 1996 and implemented on July 1, 1996 governs the foreign exchange settlements, purchases, foreign exchange account openings and payments to foreign countries that are incurred in China by domestic institutions, individual residents, foreign organizations' institutions in China and foreign individuals visiting China.

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PBC publicizes the exchange rates between RMB and other major foreign currencies on each business day. The exchange rates are determined by reference to the preceding day's trading prices of RMB against major foreign currencies in the inter-bank foreign exchange market.

Before the second amendment of the Foreign Exchange Regulations in August 2008, unless special immunity is obtained, all organizations and individuals in China shall sell their exchange income to designated banks, but foreign-funded enterprises are permitted to retain a certain percentage of their exchange income, to be deposited in a foreign exchange bank account opened in designated banks. In addition, exchange income arising from loans from foreign institutions or from issuance of shares or bonds valued in foreign currencies need not be sold to designated banks but shall be deposited in designated foreign exchange accounts with designated banks. Capital foreign exchange must be deposited in foreign exchange accounts opened with designated banks. However, the newly revised Foreign Exchange Regulation substantially changed the regulatory system by abolishing the compulsory sale principle of the exchanges income under current items, which means enterprises and individuals have the option either to sell to banks or keep the exchange income.

The PRC government has been loosening its control over foreign exchange purchases. Any Chinese enterprise in need of foreign currencies in their day-to-day business activities, trade and nontrade operations, import business and payment of foreign debts may purchase foreign currencies from designated banks, provided that they submit the required appropriate supporting documents. In addition, if foreign-funded enterprises are in need of foreign currencies for distributing dividends, capital bonuses or profits to foreign investors, the amount so needed after payment of the appropriate dividend tax may be drawn from the enterprises' foreign exchange accounts maintained with designated banks. If the foreign currency in such an account is insufficient, the foreign-funded enterprise may apply to the government authority in charge for purchasing the necessary amount of foreign currency from a designated bank to cover the deficiency. Although the foreign exchange control over transactions under current accounts has decreased, enterprises shall obtain approval from the State Administration of Foreign Exchange before they accept foreign-currency loans, provide foreign-currency guarantees, make investments in foreign countries or carry out any other capital account transactions involving the purchase of foreign currencies.

In foreign exchange transactions, designated banks may freely determine applicable exchange rates based on the rates publicized by PBC and subject to certain governmental restrictions.

The *Notice Concerning Foreign Exchange Control of Overseas-listed Enterprises*, as jointly promulgated by China Securities Regulatory Commission ("CSRC") and the State Administration of Foreign Exchange ("SAFE"), came into effect on January 13, 1994, and provides that:

- Funds raised by domestic enterprises through issuing shares in foreign countries shall be categorized as income from capital projects, and may be deposited in cash in foreign exchange accounts opened in China as approved by the SAFE.
- A domestic enterprise issuing shares in foreign countries shall, within ten days after the foreign funds raised through the issuance of the shares have become available, transfer the full amount of the funds into China and deposit the amount in a foreign exchange account opened with approval.
- Foreign currencies needed by domestic enterprises issuing shares in foreign countries for the purpose of distributing dividends and capital bonuses to overseas shareholders may be paid and remitted by the enterprises' banks from their foreign exchange accounts with approval of the SAFE. The enterprises' foreign currency uses for other purposes shall be handled according to applicable regulations.
- If the sum of foreign-currency funds raised by a domestic enterprise through the issuance of shares in foreign countries reaches 25% or more of the enterprise's total equity, it may apply to the Ministry of Commerce of the PRC (previously known as the Ministry of Foreign Trade and

Economic Cooperation of China) or its authorized department to establish a Sino-foreign joint venture according to the Law on Sino-foreign Joint Ventures. If it is granted the status of a Sinoforeign joint venture, its foreign-currency income and expenses shall be handled pursuant to the foreign exchange control regulation governing foreign-invested enterprises.

The *Notice Concerning Further Improving Foreign Exchange Control of Overseas-listed Enterprises*, jointly issued by CSRC and SAFE, took effect on September 1, 2002, and provides that:

- Domestic equity holders of companies with foreign shares listed overseas and of overseas listed companies controlled by Chinese investors shall, within 30 days after obtaining CSRC's approval for issuing and listing shares in foreign countries, fulfill the procedure with SAFE for foreign exchange registration of overseas-listed shares.
- Companies with foreign shares listed overseas shall, within 30 days after the funds raised have become ready, transfer into China the amount of the funds remaining after deduction of associated costs and expenses, and shall not retain the funds in foreign countries without permission of SAFE. The funds transferred back into China shall be subject to control as if they were funds directly injected by foreign investors and may be kept in earmarked accounts or be used for foreign exchange settlement if approved by SAFE.
- Foreign-currency funds, obtained by domestic equity holders of companies with foreign shares listed overseas and of overseas listed companies controlled by Chinese investors through reducing holdings of shares in listed companies or through the listed companies' sale of their assets (or equity), shall be transferred back into China within 30 days after the funds become available and after deduction of associated costs and expenses, which may not be detained in foreign countries without approval of SAFE. Foreign exchange settlement shall be made for such funds as approved by SAFE after they are transferred back into China.
- If overseas accounts are to be opened to temporarily keep the abovementioned foreign-currency funds before they are transferred back into China, application may be made to SAFE for opening such earmarked foreign exchange accounts, of which the maximum term shall be 3 months from the date of account opening.
- Overseas listed companies controlled by Chinese investors who have injected funds raised in China as investment or foreign debts shall fulfill appropriate procedures according to prevailing regulations governing investments, foreign debts and foreign exchange control.
- The procedure for foreign exchange registration of overseas investment shall be carried out according to regulations for overseas investments of domestic equity holders of overseas listed companies controlled by Chinese investors who inject assets or equity in foreign countries. The asset or equity to be so injected shall be appraised, the amount of the overseas investment shall not be less than the appraised value of the asset or equity to be injected, and the asset appraisal and confirmation procedure prescribed by the state-owned assets administration shall be fulfilled if the investment involves state-owned assets.
- Companies with foreign shares listed overseas needing to repurchase their own shares listed and circulated in foreign countries shall, after obtaining the approval from CSRC, follow procedures set by SAFE for changing foreign exchange registration of their overseas-listed shares and for approval of opening an overseas account and remittance of funds to foreign countries.

On September 9, 2003, SAFE issued the *Notice Concerning Improving Foreign Exchange Control of Overseas Listings*, clarifying relevant issues in the *Notice Concerning Further Improving Foreign Exchange Control of Overseas Listings*. On February 1, 2005, SAFE issued the *Notice Concerning Foreign Exchange Control of Overseas Listings*, further revising and supplementing the abovementioned notices as follows:

- The time limit for domestic equity holders of companies with foreign shares listed overseas and of overseas listed companies controlled by Chinese investors to transfer funds back into China has been extended to "within six months after the funds so raised have become ready'', and for earmarked overseas foreign exchange accounts, the time period has been extended to "two years from the date of account opening."

According to the second amendment of the Foreign Exchange Regulations effective on August 6, 2008, the aforesaid requirement to transfer the exchange income back into China is further loosened. It states that the exchange incomes could be transferred back to China or kept in oversea accounts under prescribed conditions and/or within prescribed time limit.

B. TAXATION IN HONG KONG

Hong Kong

Tax on Dividends

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

Taxation on gains from sale

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the H-Shares. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate on individuals of 16%. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for examples, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment. Trading gains from sales of H-Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H-Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for, or the market value of, the H-shares, will be payable by the purchaser on every purchase and by the seller on every sale of [●] shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving [●] shares). In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of H-shares. Where one of the parties to a transfer is resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of [●] shares whose deaths occur on or after February 11, 2006.