

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 centres. The exchange rates used by swap centres 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 centre first had to obtain the approval from the SAFE.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the PBOC Notice, effective from 1 January 1994. The PBOC 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 centres. On 26 March 1994, the PBOC promulgated the PBOC Provisional Regulations. The PBOC Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organisations and social organisations 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-U.S. dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi-U.S. 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 Regulation of the PRC on Foreign Exchange Administration which became effective from 1 April 1996. The Regulation of the PRC on Foreign Exchange Administration 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 Regulation of the PRC on Foreign Exchange Administration 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 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 PBOC Announcement. The

PBOC 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 specialised 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 (關於停辦外匯調劑業務的通知) with effect from 1 December 1998. According to this 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 organisations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by the 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 the 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 Shares are declared in Renminbi but must be paid in Hong Kong dollars.

TAXATION IN 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 the Company.

Taxation on gains from sale

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. However, trading gains from the sale of the Shares 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 16.5% on corporations and at a maximum rate on individuals of 15%. Trading gains from sales of the Shares traded 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 the Shares traded on the Hong Kong Stock Exchange realised 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 Shares, will be payable by the purchaser on every purchase and by the seller on every sale of the Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of the 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.