

**TAXATION OF SECURITY HOLDERS**

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, as well as on the *Agreement Between the U.S. and the PRC for the Avoidance of Double Taxation* (the “**Treaty**”), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this section of the prospectus, an “Eligible U.S. Holder” is any beneficial owner of H Shares that (i) is a resident of the United States for purposes of the Treaty, (ii) does not maintain a permanent establishment or fixed base in the PRC to which H Shares are attributable and through which the beneficial owner carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services) and (iii) who is not otherwise ineligible for benefits under the Treaty with respect to income and gain derived in connection with the H Shares.

This section of the prospectus does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

**PRC****Taxation of Dividends**

*Individual Investors.* According to the *Individual Income Tax Law of China* (《中華人民共和國個人所得稅法》) (the “**Individual Income Tax Law**”), as amended on December 29, 2007 and effective on March 1, 2008, and the *Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System* (《中華人民共和國股份制試點企業有關稅收問題的暫行規定》) (the “**Provisional Regulations**”), dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty. However, the State Administration of Taxation, the PRC central government tax authority which succeeded the State Tax Bureau, issued, on July 21, 1993, a *Notice of the 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* (《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》) (the “**Tax Notice**”), which states that dividends paid by a PRC company to foreign 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.

In a letter dated July 26, 1994 to the former State Commission for Restructuring the Economic System, the State Council Securities Commission and the CSRC, the State Administration of Taxation reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event that this exemption is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations, and the Individual Income Tax Law. Such withholding tax may be reduced pursuant to an applicable double taxation treaty. To date, the relevant tax authorities have not collected withholding tax from dividend payments on such shares exempted under the Tax Notice.

*Enterprise.* According to the *Arrangement between the mainland China and Hong Kong for the Avoidance of Double Taxation on Income* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》)

signed on August 21, 2006, the PRC Government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds 25% equity interest or more in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by the PRC company.

According to the New EIT Law and the *Provision for Implementation of Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法實施條例》), which both became effective on 1 January 2008, the non-resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the dividends and bonuses received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

According to the *Notice Regarding Questions on Withholding Enterprise Income tax When PRC Resident Enterprises Distribute Dividends to Non-resident Enterprise Shareholders of H Shares* (Guoshuihan [2008]NO. 897) (《關於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, which became effective on November 6, 2008, PRC enterprises should withhold enterprise income tax at a rate of 10% when they distribute dividends to non-resident enterprise shareholders of H shares from the year of 2008. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

*Tax Treaties.* Investors who do not reside in the PRC and reside in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of our Company who do not reside in the PRC. The PRC currently has double-taxation treaties with many nations in the world, which include but not limited to:

- Australia;
- Canada;
- France;
- Germany;
- Japan;
- Malaysia;
- the Netherlands;
- Singapore;
- the United Kingdom; and
- the United States.

Under the Treaty, the PRC Government may tax a dividend paid by our Company to an Eligible U.S. Holder up to a maximum of 10% of the gross amount of such dividend.

### **Taxation of Capital Gains**

The Tax Notice provides that gains realized by foreign enterprises that are holders of Overseas Shares and that these shares are not held by their offices and premises set up in the PRC would, temporarily, not be subject to capital gains taxes. With respect to individual holders of H shares, the *Provision for Implementation of Individual Income Tax Law of the PRC* (《中華人民共和國個人所得稅法實施條例》) (the “**Provisions**”) as amended on February 18, 2008, generally stipulate that gains derived from assignment of property shall be subject to income tax at a rate of

20%. In addition, the Provisions stipulate that measures for the levying of individual income tax on gains derived from the sale of equity securities shall be formulated separately by the Ministry of Finance and shall be implemented following approval of the State Council. However, no income tax on gains realized on the sale of equity shares has been collected. Gains on the sale of shares by individuals were temporarily exempted from individual income tax pursuant to notices issued jointly by the Ministry of Finance and State Administration of Taxation dated June 20, 1994, February 9, 1996 and March 30, 1998. In the event this temporary exemption is withdrawn or ceases to be effective, individual holders of H Shares may be subject to capital gains tax at the rate of 20% unless such tax is reduced or eliminated by an applicable double taxation treaty. If taxation on capital gains from the sale of H Shares becomes applicable, the Treaty may be interpreted such that the PRC may begin to charge tax on capital gains from the sale or disposition of H Shares by any Eligible U.S. Holder of 25% or more interest in our Company.

On November 18, 2000, the State Council issued a notice entitled *State Council Notice on the Income Tax Reduction for Interest and Other Income that Foreign Enterprises Derive in the PRC* (《國務院關於外國企業來源於我國境內的利息等所得等減徵所得稅問題的通知》) (the “**Tax Reduction Notice**”). Under the Tax Reduction Notice, beginning January 1, 2000, enterprise income tax at a reduced 10% rate will apply to interest, rental, license fees and other income obtained in the PRC by foreign enterprises without agencies or establishment in the PRC, or by foreign enterprises without any substantive relationship with their agency or establishment in the PRC.

According to the New EIT Law and the *Provision for Implementation of Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法實施細則》), the non-resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the gains received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

### **Additional Chinese Tax Considerations**

*PRC Stamp Duty.* PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the Provisional Regulations 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* (《中華人民共和國印花稅暫行條例》), which became effective on October 1, 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 Tax.* No liability for estate tax under PRC law will arise from non-PRC national’s holding of H shares.

## **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.

### **Capital gains and profit tax**

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H shares. Trading gains from the sale of H 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. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a maximum rate of 15.0%. Gains from sales of the H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise 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 will be payable by the purchaser on every purchase, and by the seller on every sale, of the H shares. 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% is currently payable on a typical sale and purchase transaction of H shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required). Where a sale or purchase of H shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer 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.

### Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. 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 H shares whose deaths occur on or after February 11, 2006.

## TAXATION OF THE COMPANY BY THE PRC

### Income Tax

From January 1, 1994, income tax payable by PRC enterprises, including state-owned enterprises and share system enterprises, was governed by the PRC Enterprise Income Tax Provisional Regulations (the “**EIT Regulations**”) which took effect from 1 January 1994, and which provided for an income tax rate of 33% unless a lower rate is provided by law, administrative regulations or State Council regulations. Our Company was generally subject to tax at a rate of 33% pursuant to the EIT Regulations.

On 16 March 2007, the 10th NPC adopted the resolution to revise the EIT Regulations. The New EIT Law came into effect on 1 January 2008, according to which the enterprise income tax rate in the PRC was reduced from 33% to 25% and is in line with the rate applicable to foreign investment enterprises and foreign enterprises. At the same time, the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and the EIT Regulations have ceased to be effective.

Sino-foreign joint ventures will be entitled to certain tax benefits during a term of transition under the relevant laws and regulations in the PRC. Following the completion of the Global Offering, our Company will remain ineligible to apply for the status of a sino-foreign investment joint stock limited liability company and does not intend to apply for such status. Nonetheless, pursuant to the applicable laws, rules and regulations in the PRC, no tax benefits would accrue to our Company upon acquiring such status.

### Value-added Tax

Pursuant to the *Provisional Regulations of the PRC Concerning Value Added Tax* (《中華人民共和國增值稅暫行條例》) effective from January 1, 1994 which was amended in November 2008 and their implementing rules, the sale of products within the PRC, the importation of products and the provision of

processing and/or repair services within the PRC by our Company are subject to value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”.

### Business Tax

Pursuant to the *Provisional Regulations of the PRC Concerning Business Tax* (《中華人民共和國營業稅暫行條例》) effective from January 1, 1994 which was amended in November 2008 and the relevant implementing rules, a business tax is imposed on enterprises which provide taxable services, transfer intangible property or sell real estate in the PRC. The business tax is levied at a rate from 3% to 20% on the provision of taxable services, transfer of intangible property or sale of real estate in the PRC.

### FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is the 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 PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated new *Regulation of Foreign Exchange* (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Regulations**”) which was effective from April 1, 1996. The Foreign Exchange Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to the approval from the SAFE while capital account items still are. The Foreign Exchange Regulations was subsequently amended on January 14, 1997 and on August 1, 2008. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On June 20, 1996, the PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (《結匯、售匯及付匯管理規定》) (the “**Settlement Regulations**”) which took effect on July 1, 1996. The Settlement Regulations superseded the *Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange* 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 also published the *Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-invested Enterprises* (《中國人民銀行關於對外商投資企業實行銀行結售匯的公告》). 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 October 25, 1998, PBOC and SAFE promulgated the *Notice Concerning Closure of the Foreign Exchange Swap Business Activities* (《關於停辦外匯調劑業務的通知》) pursuant to which and with effect from December 1, 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 enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On July 21, 2005, the PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the Renminbi exchange rate was no longer pegged to the U.S. dollar only. The PBOC would announce the closing price of a foreign currency such as the U.S. dollar against the Renminbi in the inter-bank foreign

exchange market after the closing of the market on each working day. This closing price will be used as the middle price for quoting the Renminbi exchange rate on the following working day.

Since January 4, 2006, the PBOC improved the method of generating the middle price for quoting the Renminbi exchange rate by introducing an enquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. In addition, the PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market. After the introduction of the enquiry system, the generation of the middle price for quoting the Renminbi was transformed to a mechanism under which the PBOC authorized the China Foreign Exchange Trading System to determine and announce the middle price for quoting the Renminbi against the U.S. dollar, based on the enquiry system, at 9:15 am on each business day.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in the PRC must sell their foreign exchange recurrent 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 convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. 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, may on the strength of general meeting resolutions of such PRC enterprises or 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 the relevant branch must be sought.

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

We prepare our consolidated financial statements in Renminbi.

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although the PRC Government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or security, still requires the approval of SAFE and other relevant authorities.