CAYMAN ISLANDS TAXATION

Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands.

Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

PRC TAXATION

Enterprise income tax.

Prior to January 1, 2008, enterprises established in the PRC were generally subject to a 30% national and 3% local enterprise income tax rate. Various preferential tax treatments promulgated by national tax authorities were available to foreign-invested enterprises or high or new technology enterprises located in certain high-tech zones of China. In addition, some local tax authorities allowed certain enterprises registered in their tax jurisdictions to enjoy lower preferential tax treatment according to local policies.

On March 16, 2007, NPC promulgated the New Income Tax Law, which took effect on January 1, 2008. Under the New Income Tax Law, the PRC adopted a uniform enterprise income tax rate of 25% for all PRC enterprises (including foreign-invested enterprises) and significantly curtailed the tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, the New Income Tax Law also contemplates various transition periods and measures for previous preferential tax policies enjoyed by the enterprises. Enterprises which were established before the promulgation of the New Income Tax Law and were previously entitled to a lower income tax rate will be entitled to a grace period of five years, and enterprises which were entitled to the fixed-term preferential tax exemption or reduction will continue to enjoy such preferential treatment until the expiration of the specified terms, except that the relevant exemption or reduction shall start from January 2008 if the first profit-making year for commencing the relevant exemption or reduction is later than 2008.

Under the New Income Tax Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises." Pursuant to New Income Tax Law and its implementation rules, besides enterprises established within the PRC, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" for PRC enterprise income tax purposes and subject to the uniform 25% enterprise income tax rate for their global income. According to the implementation rules of the New Income Tax Law, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. The SAT issued Notice on Certain Issues Relating to Identification of Resident Enterprise Status for Offshore Chinese-invested Controlling Enterprises on the Basis of a De Facto Management Body on April 22, 2009, or Circular 82, provides that certain foreign enterprises controlled by a PRC company or a

PRC company group will be classified as "resident enterprises" if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders' meetings; and half or more of the senior management or directors having voting rights.

Withholding tax

The New Income Tax Law removes the prior tax exemption and imposes a 10% withholding tax on dividends paid by foreign-invested enterprises to foreign investors. However, for foreign investors whose home countries or regions have signed bilateral tax agreements with China, the withholding tax rate may be reduced to as low as 5% depending on the terms of the applicable tax treaty.

In accordance with the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income signed on August 21, 2006, the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong tax resident, provided that the recipient is a company that holds at least 25% of the interest of the PRC company, otherwise, the applicable withholding tax rate should be 10%. Further, pursuant to the Circular of the SAT on Printing and Issuing the Administrative Measures for Non-residents to Enjoy the Treatment under Tax Treaties, which became effective on October 1, 2009, the preferential tax rate under the relevant tax treaties does not automatically apply. Approvals from competent local tax authorities are required before a foreign investor can enjoy the treaty benefits relating to dividends under the relevant tax treaties. In addition, in accordance with the Notice on How to Understand and Determine the "Beneficial Owners" in the Relevant Tax Treaties issued by the SAT on October 27, 2009, the PRC tax authorities must evaluate whether an applicant (income recipient) can be qualifies as a "beneficial owner" under the relevant tax treaties on a case-by-case basis, and, in conducting such evaluation, the taxation authorities must examine the substance rather than the form of the relevant case. Further, pursuant to the Notice on the Issues concerning the Application of the Dividend Clauses of Tax Agreements issued by the SAT on February 20, 2009, the preferential tax rate under the relevant tax treaties shall only apply to a tax resident from the other side that directly holds at least 25% of the interest of a PRC company for a period of consecutive 12 months prior to receiving the dividends.

Value-added Tax

In accordance with the Amended Provisional Regulations on Value-added Taxes of the PRC which promulgated on December 13, 1993 and amended on November 10, 2008, and its implementation rules, enterprises selling commodities, providing processing, replacement and repair services must pay value-added tax. The value-added tax in China is calculated at the statutory rate of 17% of the total sales price for goods sold, or service charges collected (**"Output VAT"**) unless a favorable rate is provided by law otherwise. However, general VAT taxpayers are allowed to deduct the VAT they have paid to their suppliers on the price paid for the purchase of inputs (**"Input VAT"**) from their Output VAT.

Producers or trading companies which export their products are generally exempted from value-added tax. In addition, they may also be refunded a certain percentage of the Input VAT they have paid to their suppliers vis-à-vis the exported products.

Hong Kong Taxation

Dividends

Under the current practice of the 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 shares. Trading gains from the sale of shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are arising in or derived from Hong Kong, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on individuals at a maximum rate of 15.0%. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment.

Gains from sales of the shares effected on the Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of shares effected on the 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 shares registered on the Hong Kong register of member. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the 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 shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK$5.00. Where a sale or purchase of shares registered on the Hong Kong register of member is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract note 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. 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.

No stamp duty will be levied on the transfer of shares that are registered on a share register outside Hong Kong.

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 death occur on or after February 11, 2006.