Taxation of Security Holders

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of the Company's H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds these H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of the Company's H Shares, and does not take into account the specific circumstances of any particular investors such as tax exempt entities, certain insurance companies, maker-dealer, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting shares of the Company, investors that hold H Shares as part of a straddle or a hedging or conversion transaction whose functional currency is not U.S. dollars, 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, which are subject to change (or changes in interpretation), possibly with retroactive effect.

The discussion does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp duty and estate taxation. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of the Company's H Shares.

Taxation of Dividends

PRC Taxation

Individual Investors. Pursuant to the "Individual Income Tax Law of the People's Republic of China" ("Individual Income Tax Law") promulgated in 1980, as amended on 31 October 1993, 30 August 1999 and 27 October 2005, dividends paid by PRC companies to individuals are ordinarily subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, his receipt of dividends from a PRC company is ordinarily subject to an individual income tax of 20%, unless reduced by an applicable tax treaty or specifically exempted by the tax authority of the PRC State Council. However, on 21 July 1993, the PRC State Administration of Taxation ("SAT") issued 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" ("the Tax Notice"), which states that dividends received by foreign individuals and paid by a PRC company with respect to shares listed on an overseas stock exchange ("Overseas Shares"), such as H Shares, are temporarily not subject to PRC individual income tax.

"The Amendment to the Individual Income Tax Law of the People's Republic of China by the Standing Committee of the National People's Congress" ("The Amendment") was enacted on 31 October 1993 and became effective on 1 January 1994, and rules that the effect of any past provision of any past law contradicting the Amendment with respect to individual income tax ceases on the same date. Pursuant to the Amendment, the amended "Individual Income Tax Law" and the "Provisions for Implementation of Individual Income Tax Law of the PRC", a foreign individual receiving dividends from a PRC company is subject to an Individual Income Tax of 20%, unless reduced by an applicable tax treaty or specifically exempted by the tax authority of the PRC State Council. However, in a letter dated 26 July 1994 to the Restructuring Commission, the former State Council's Securities Commission (國務院證券委員會) and the CSRC, the SAT reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event of the withdrawal of this exemption, a 20% tax should be levied on dividends pursuant to the amended Individual Income Tax Law and the Provisions for Implementation of Individual Income Tax Law of the PRC. Such tax levy may be reduced pursuant to applicable agreements for avoidance of double taxation. The relevant tax authority has not levied any withholding tax on Overseas Shares dividends to the present.

Enterprises. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises 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), dividends paid by PRC companies to foreign enterprises with no permanent establishment in the PRC (including foreign companies and other economic entities) are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise (including foreign companies and other economic entities) with no permanent establishment in the PRC receiving dividends with respect to a PRC company's Overseas Shares will temporarily not be subject to the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate is subject to reduction 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 the PRC Company who do not reside in the PRC. The PRC currently has double taxation treaties with a number of countries, including without limitation Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Hong Kong Taxation

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 of Capital Gains

PRC Taxation

The Tax Notice provides that gains realised by foreign enterprises that are holders of Overseas Shares (which would include the H Shares) would, temporarily, not be subject to capital gains taxes. As to individual holders of the Company's H Shares, the Provisions 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"), issued on 28 January 1994, as amended on 19 December 2005, generally stipulated that gains derived from sale of equity shares shall be subject to income tax at a rate of 20%. In addition, the Provisions stipulated 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 realised 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 MOF and SAT dated 30 March 1998. In the event this temporary exemption is withdrawn or ceases to be effective, individual holders of the Company's 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.

On 18 November 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" (關於外國企業來源於我國境內的利息等所得減徵所得稅問題的通知) (the "Tax Reduction Notice"). Under the Tax Reduction Notice, beginning 1 January 2000, for foreign enterprises which have no institutions and premises in China or have set up institutions and premises but having no practical connection with its above income, a business income tax will be levied upon their interest, rent, royalties and other income at a 10% reduced tax rate. Therefore, if the exemption as described in the preceding paragraph does not apply or is not renewed, and if the Tax Reduction Notice is found not to apply, a foreign corporate shareholder of the Company's H shares may be subject to a 20% tax on capital gains, unless reduced in accordance with an applicable double taxation treaty.

Hong Kong Taxation

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as H shares. 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 of 16% on individuals. Gains from sales of the Company's H shares effected on the Stock Exchange will be considered to be derived from or to have arisen in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Company's H shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

PRC Stamp Duty

PRC stamp duty is imposed on the transfer of shares of PRC publicly traded companies does not apply to the acquisition and disposal by non-PRC investors of H shares outside of the PRC under the "Provisional Regulations of the PRC Concerning Stamp Duty" (中華人民共和國印花稅暫行條例) (the "Stamp Duty Regulations") which became effective on 1 October 1988. The Stamp Duty Regulations and the implementation rules thereof provide that PRC stamp duty is imposed on documents executed or received within the PRC that are legally binding in the PRC and protected under PRC law.

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 Company's H shares. With effect from 1 September 2001, the duty is charged at the ad valorem rate of HK$1 per HK$1,000 or part thereof of the consideration for, or (if greater) the value of, the H Shares transferred (i.e. a total of HK$2 per HK$1,000 or part thereof is payable on a typical sale and purchase transaction of H Shares). In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of shares.

If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the unpaid duty will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such duty.

Estate Duty

PRC Estate Tax

No liability for estate tax under PRC law will arise from non-PRC nationals holding the Company's H Shares.

Hong Kong Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after 11 February 2006. No Hong Kong estate duty is payable in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

Taxation of the Company in the PRC

Income Tax

From 1 January 1994, income tax payable by PRC domestic enterprises, including state-owned enterprises and joint stock enterprises, is governed by the "PRC Enterprise Income Tax Provisional Regulations" (中華人民共和國企業所得稅暫行條例) (the "EIT Regulations") which provide for a corporate income tax rate of 33% unless a lower rate is provided by law, administrative regulations or State Council regulations. Currently, the Company and its subsidiaries are enjoying lower tax rates or tax exemptions pursuant to the following regulations.

In April 2002, the State Tax Bureau issued Guo Shui Fa (2002) No. 36 "Supplementary Notice on the Tax Policy Issues relating to Transformed Scientific Research Institutes (《關於轉制科研機構享受企業所得稅優惠政策問題的補充通知》)", whereby the 134 Transformed Research Institutes as listed in document Guo Ke Fa Zheng Zi [2002] No. 300, and limited liability companies or joint stock limited companies jointly established by research institutes with other enterprises, research institutes with shareholding in the transformed enterprises attaining 50%, shall be exempted from enterprise income tax within five years commencing from 2001 to the end of 2005. In March 2005, the Ministry of Finance, the State Tax Bureau again issued Cai Shui [2005] No. 14 "Notice on the Extension of the Implementation Period of Tax Policy in respect of Transformed Scientific Research Institutes (《關於延長轉制科研機構有關稅收政策執行期限的通知》)", whereby upon the expiry of the above five year exemption period of enterprise income tax of the research institutes, it was further extended for two years.

In September 2000, the Ministry of Finance, the State Tax Bureau and the Customs issued Cai Shui [2000] No. 25 "Notice on the Taxation Policy Issues relating to Encouraging the Development of Software Industry and Integrated Circuit Industry (《關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知》)", whereby after recognition, software production enterprises in the PRC are entitled to tax exemptions in the first and second years commencing from its first profit-making year, and 50% reduction in income tax from the third to the fifth year.

In March 1994, the Ministry of Finance, the State Tax Bureau issued Cai Shui [1994] No. 1 "Notice on Certain Preferential Tax Policies on Enterprise Income Tax (《關於企業所得稅若干優惠政策的通知》)", whereby enterprises within High and New Technology Industrial Zones approved by the State Council, having been recognized as High and New Technology Enterprises by the relevant authorities, shall be entitled to income tax at a reduced tax rate of 15%.

In September 2000, the Ministry of Finance, the State Tax Bureau and the Customs issued Cai Shui [2000] No. 25 "Notice on the Taxation Policy Issues relating to Encouraging the Development of Software Industry and Integrated Circuit Industry (《關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知》)", whereby key software production enterprises within the State planned deployments are entitled to income tax at a reduced tax rate of 10% if they have not enjoyed such preferential treatments in the relevant years.

Value-added Tax

"The PRC Provisional Regulations on Value-added Tax" ("the VAT Regulations") (中華人民共和國增值稅暫行條例) were promulgated on 13 December 1993 and became effective on 1 January 1994. The VAT Regulations apply to domestic and foreign investment enterprises and foreign enterprises that sell goods, provide processing or repair services or import goods in the PRC. Except for certain specified categories of goods sold or imported of which the VAT rate is 13%, the VAT rate for the sale or import of goods and for the provision of services is 17%.

In September 2000, the Ministry of Finance, the State Tax Bureau and the Customs issued Cai Shui [2000] No. 25 "Notice on the Taxation Policy Issues relating to Encouraging the Development of the Software Industry and IC Industry (《關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知)", whereby the value-added tax in respect of sales of self-developed software products, after subject to the statutory VAT of 17%, the portion of the actual VAT exceeding 3% shall be subject to an immediate tax refund commencing from 24 June 2000 until before the end of 2010. Currently, the Company is subject to such immediate tax refund policy.

Business Tax

Under the "Provisional Regulations on Business Tax of the PRC" (中華人民共和國營業稅暫行條例) which was promulgated on 13 December 1993 and took effect on 1 January 1994, business tax is levied on all enterprises that provide "taxable services", assignment of intangible assets and sale of immovable property in the PRC. The rates range from 3% to 20% depending on the type of taxable items.

Taxation of the Company by Hong Kong

The Company does not believe that any of its income or the income of its subsidiaries is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. The Company will therefore not be subject to Hong Kong taxation.