

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 H Shares in connection with the Placing 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 (such as tax-exempted 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 the U.S. dollar, 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 of this prospectus which are subject to change (or changes in interpretation), possibly with retrospective effect.

The discussion 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 advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

Taxation of dividends*PRC taxation*

Individual investors. According to the individual Income Tax Law of the PRC, as amended on 31 October 1993 and took effect on 1 January 1994, and amended on 30 August 1999 and took effect on the same date, respectively, 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 reduced by an applicable tax treaty. However, the PRC State Administration of Taxation (the “SAT”), the PRC central government tax authority which succeeded the State Tax Bureau issued, on 21 July 1993, the “Notice of the PRC State Administration of Taxation Concerning the Taxation of Gains on Transfer of and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (《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》國稅發〔1993〕045號)” (“Tax Notice”) which states that dividends paid by a PRC company to individuals with respect to shares listed on an overseas stock exchange (“Overseas Shares”), such as H Shares, are not subject to PRC withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares.

The Amendments to the Individual Income Tax Law of the PRC (關於修改《中華人民共和國個人所得稅法》的決定) (the “Amendments”) were promulgated on 31 October 1993 and became effective on 1 January 1994. The Amendments state that they shall supersede the provisions of any contradictory prior administrative regulations concerning individual income tax. Pursuant to the requirements of the Amendments and the amended Individual Income Tax Law (《國稅總局關於外籍個人持有中國境內上市公司股票所得的股息有關稅收問題的函》國稅函發〔1994〕440號), foreign individuals are subject to withholding tax on dividends paid by a PRC company at a rate of 20% unless specifically exempted by the tax authority of the State Council. However, in a letter dated 26 July 1994 to the State Economic Restructuring Commission, the Securities Commission and 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 that this letter is withdrawn, a 20% tax may be withheld on dividends in accordance with the Amendments and the Individual Income Tax Law. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

Enterprises. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises (中國外商投資企業及外國企業所得稅法), dividends paid by PRC companies (other than Foreign Investment Enterprises) to foreign enterprises with no permanent establishment in the PRC are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise with no permanent establishment in the PRC receiving dividends paid 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 could be reduced pursuant to an applicable double taxation treaty.

Tax treaties. Investors who do not reside in the PRC and reside in countries which 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 Company who do not reside in the PRC. The PRC currently has double-taxation treaties with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Hong Kong Taxation

No tax will be 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 Overseas Shares, the Provisions for Implementation of Individual Income Tax Law of the PRC (中國個人所得稅法實施條例) (the “Provisions”), issued on 28 January 1994, stipulated that gains realised on the sale of equity shares would be subject to income tax at a rate of 20%. The Provisions empower the MOF to draft detailed tax rules on the mechanism for collecting such tax, which shall be implemented upon approval by the State Council. However, no income tax on gains realised on 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 by the MOF and the SAT dated 20 June 1994, 9 February 1996 and 30 March 1998, respectively. In the event such 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.

Hong Kong Taxation

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the H Shares). Trading gains from the sale of property by persons carrying on a business in Hong Kong, where such gains are derived from or arose in Hong Kong from such business, will be chargeable to Hong Kong profits tax which is imposed at the rate of 17.5% on corporations and at a maximum rate of 15.5% on individuals for the year of assessment 2003/2004. Gains from sales of the 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 sale of H Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

TAXATION OF THE COMPANY BY HONG KONG

The Directors do not consider that any of the income of the Company is derived from or arises in Hong Kong for the purpose of Hong Kong profits tax. The Company will, therefore, not be subject to Hong Kong profits tax.

Additional Hong Kong tax considerations

Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of H Shares. 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 currently payable on a typical sale and purchase transaction of H Shares). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H Shares. Where one of the parties 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.

Estate duty

Estate duty is imposed upon the principal value of property situated in Hong Kong passing on the death of a person. H Shares are regarded as property situated in Hong Kong for estate duty purposes. Hong Kong estate duty is imposed on the principal value of a deceased's estate at graduated rates from 5% to 15%. In respect of the estate of persons dying on or after 1 April 1998, no estate duty is payable where the principal value of the estate does not exceed HK\$7.5 million. The maximum rate of 15% applies where the principal value of the estate exceeds HK\$10.5 million.

TAXATION OF THE COMPANY BY THE PRC**Income tax**

With effect from 1 January 1994, income tax payable by PRC domestic enterprises is governed by the PRC Enterprise Income Tax Provisional Regulations (「中國企業所得稅暫行條例」) (“EIT Regulations”). The EIT Regulations provide for an income tax rate of 33% unless a lower rate is provided by law, administrative regulations or State Council regulations.

The “Notice of Certain Preferential Policies on Enterprise Income Tax” 《關於企業所得稅若干優惠政策的通知》財稅字[1994] 001號) promulgated by the Ministry of Finance and State Tax Bureau provides that “all domestic enterprises of hi-tech nature recognized by a state-grade hi-tech development zone are eligible for a preferential enterprise income tax rate of 15% and all newly established hi-tech enterprises shall enjoy 2 years of tax exemption holidays from the year when production commences.” Since the Company is recognized as a hi-tech enterprise by Xi'an National Hi-tech Industrial Development Zone, a state-grade hi-tech development zone, the Company therefore is eligible and entitled for the preferential enterprise income tax rate of 15% (including 2 years of tax exemption holidays on 2000 and 2001).

Business tax

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax (「中國營業稅暫行條例」), effective from 1 January 1994 and the implementing rules, 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 5% on the provision of taxable services, transfer of intangible property or sale of real estate in the PRC.

Additional PRC tax considerations*PRC stamp tax*

PRC stamp tax is imposed on the transfer of shares in PRC companies that are publicly-traded under the Provisional Regulations Concerning Questions of Taxation on Enterprises Experimenting with the Share System (「股份制試點企業有關稅收問題的暫行規定」) (“Provisional Regulations”). However, such stamp tax should not apply to the acquisition or disposal by non-PRC investors of H Shares outside the PRC by virtue of the Provisional Regulations which became effective on 1 October 1988. The Provisional Regulations provide that PRC stamp tax is imposed only on documents executed or received within the PRC which are legally binding in the PRC and are protected under the PRC law.

Estate tax

Currently, no liability for estate tax under PRC law and regulations will arise from non-PRC nationals holding H shares. However, Estate Tax might be imposed on non-PRC nationals holding H Shares in the future when the relevant governing authorities determine that the enforcement of estate tax is necessary.