

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 (such as tax-exempt entities, certain insurance companies, broker-dealers, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting stock 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 hereof, as well as on the Agreement Between the United States of America and the People's Republic of China 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 discussion, a "U.S. Holder" is any beneficial owner of H Shares that is (i) a citizen or resident of the United States, or (ii) a corporation organized under the laws of the United States which pays federal income tax on a net income basis in respect of a Share. An "Eligible U.S. Holder" is a U.S. Holder 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 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.

PRC**Taxation of Dividends**

Individual Investors. According to the Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System, or the Provisional Regulations, and the Individual Income Tax Law of China, as amended on August 30, 1999 and effective August 30, 1999, 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 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 of China (the "SAT"), 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 (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 former State Council Securities Commission 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 that this exemption is withdrawn, a 20% tax may be withheld on dividends by the Company at source 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.

Enterprises. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises, dividends paid by PRC companies to enterprises 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 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 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.

Under the treaty between the PRC and the United States, the China-United States Treaty, the PRC may tax a dividend paid by the Company to an Eligible U.S. Holder up to a maximum of 10% of the gross amount of such dividend. It is arguable that under the China-US Treaty, the PRC may only tax gains from the sale or disposition by an Eligible U.S. Holder of H Shares representing an interest in the Company of 25% or more, but this position is uncertain and the PRC authorities may take a different position.

Taxation of Capital Gains

The Tax Notice provides that gains realised by enterprises that are holders of Overseas Shares and that these shares are not held by their offices and sites set up in the PRC would, temporarily, not be subject to capital gains taxes. With respect to individual holders of H Shares, the Provisions for Implementation of Individual Income Tax Law of the PRC, or the Provisions, issued on

January 28, 1994, generally stipulated that gains derived from assignment of property shall be subject to income tax at a rate of 20%. In addition, the Provision 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 MOF 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 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 of capital gains from the sale of H Shares becomes applicable, it is arguable that under the PRC-United States Treaty, the PRC may only tax gains from the sale or disposition by an Eligible U.S. Holder of H Shares representing an interest in the Company of 25% or more, but this position is uncertain and the Chinese authorities may take a different position.

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,” or the Tax Reduction Notice. Under the Tax Reduction Notice, beginning January 1, 2001, enterprise income tax at a reduced 10% rate will apply to interest, rental, licence 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. Therefore, if the exemption as described in the preceding paragraph does not apply or is not renewed, and the Tax Reduction Notice is found not to apply, a foreign enterprise shareholder may be subject to a 20% tax on capital gains, unless reduced by an applicable double taxation treaty.

Additional Chinese Tax Considerations

Chinese 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, which became effective on October 1, 1988 and 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 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.

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 a Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate on individuals of 16% with effect from April 1, 2004. Gains from sales of 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 realised 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 H Shares. With effect from September 1, 2001, the duty is charged at the rate of 0.2% of the value of the H Shares transferred (the buyer and seller each paying half of such stamp duty). 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 duty not paid will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such duty.

Estate Duty

The H Shares are Hong Kong property under Hong Kong law and, accordingly, these shares may be subject to estate duty on the death of the beneficial owner of these shares, regardless of the place of the owner's residence, citizenship or domicile. Hong Kong estate duty is imposed according to a progressive scale from 5% to 15%. The rate of and the threshold for estate duty has, in the past, been adjusted on a fairly regular basis. Currently, no estate duty is payable when the aggregate value of the dutiable estate does not exceed HK\$7.5 million, and the maximum rate of duty of 15% applies when the aggregate value of the dutiable estate exceeds HK\$10.5 million.

TAXATION OF THE COMPANY BY THE PRC

Income Tax

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

Sino-foreign joint ventures enjoy certain tax benefits under the relevant laws and regulations in the PRC. Following the completion of the Global Offering, the Company will remain ineligible to apply for the status of a sino-foreign investment joint stock limited 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 the Company upon acquiring such status.

Value-added Tax

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax effective from January 1, 1994 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

the Company are subject to value-added tax (“VAT”). VAT payable is calculated as “output VAT” *minus* “input VAT.” Input VAT payable by the Company on purchases is recoverable out of the output VAT collected from its customers, and any excess of output VAT over input VAT paid is payable to the tax authority. The rate of VAT is 17%, or, in certain limited circumstances, 13%, depending on the product type.

Business Tax

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax, effective from January 1, 1994, and the 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.

UK TAXATION

General

The following statements are of a general nature and are intended to apply only as a general guide to current UK tax law and to the current practice of the UK Inland Revenue. They are intended to apply only to a shareholder who is resident in the United Kingdom for UK tax purposes (a “UK Holder”) and who holds H Shares as an investment and who is the beneficial owner of those H Shares. The statements may not apply to certain classes of shareholders such as dealers in securities. The statements assume that the UK Holder is not a company which either directly or indirectly controls 10% of the voting power of the Company. Prospective acquirors of H Shares who are in any doubt as to their tax position regarding the acquisition, ownership and disposition of the H Shares or who are subject to tax in a jurisdiction other than the United Kingdom should consult their own tax advisers.

Prospective acquirors of Ordinary Shares should note that this section deals only with UK taxation. Due to the status of the Company as a resident of China, certain parts of the section dealing with PRC taxation are potentially relevant to all holders of the H Shares, regardless of the jurisdiction in which any such holder is resident for tax purposes.

This section is written on the basis that the Company is and remains resident in China and will therefore be subject to the PRC tax regime and not (save in respect of UK source income) the UK tax regime. Dividends paid by the Company will, on this basis, be regarded for UK tax purposes as Chinese dividends rather than UK dividends.

Tax on Dividends

A UK Holder will generally, depending upon the UK Holder’s particular circumstances, be subject to UK income tax or corporation tax, as the case may be, on the gross amount of any dividends paid by the Company before the deduction of any Chinese dividend withholding tax (see the discussion of any such withholding in Taxation of Dividends). A credit for Chinese withholding tax would generally be available against any UK tax liability in respect of dividends paid to UK Holders.

Tax on Capital Gains

A disposal of H Shares by a shareholder who is resident or ordinarily resident for UK tax purposes in the United Kingdom may, depending upon his particular circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purpose of the taxation of chargeable gains.

Subject to the following paragraph, a shareholder who is not resident or ordinarily resident for UK tax purposes in the United Kingdom will not be liable to UK taxation on chargeable gains unless the shareholder carries on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a non-resident company, permanent establishment) in the United Kingdom and the H Shares are, or have been, used by, held by or acquired for the purposes of such trade, profession or vocation or for the purposes of such branch or agency (or, in the case of a non-resident company, permanent establishment). A disposal of H Shares by such a shareholder may, depending on his particular circumstances and subject to any available exemptions or reliefs, give rise to a chargeable gain or an allowable loss for the purpose of the UK taxation of chargeable gains.

A shareholder who is an individual and who has, on or after March 17, 1998, ceased to be resident or ordinarily resident in the United Kingdom for tax purposes for a period of less than five years of assessment and who disposes of the H Shares during that period may be liable, on his return to the United Kingdom, to tax on any capital gain realised (subject to any available exemption or relief).

Stamp Duty/Stamp Duty Reserve Tax (“SDRT”)

No stamp duty, SDRT or similar tax or duty will be imposed in the United Kingdom on the issue.

No liability to SDRT will arise on any subsequent agreement to transfer the H Shares provided that the register in which the H Shares are registered is not kept in the United Kingdom by or on behalf of the Company.

If instruments of transfer or other documents transferring ownership of the H Shares are executed in the United Kingdom (for example, if settlement of a transaction is effected by the transfer of a share certificate to a broker or other intermediary in London) or if any other matter is done or to be done in the UK, the instrument of transfer or other document may be subject to United Kingdom stamp duty at the rate of 0.5% of the consideration payable in respect of the H Shares transferred. However, United Kingdom stamp duty is usually only required to be paid when the instrument of transfer or other document is to be registered in a United Kingdom register or brought into evidence in proceedings before the United Kingdom courts.

Any liability to United Kingdom stamp duty will be in addition to Hong Kong stamp duty.

Inheritance Tax

A gift of shares by, or the death of, an individual shareholder may (subject to certain exemptions) give rise to a liability to UK inheritance tax if the shareholder is domiciled in the United Kingdom or deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift.

Any person who is in any doubt as to his tax position or who may be subject to tax in any other jurisdiction should consult his professional tax adviser.

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 at this time. The 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 December 31, 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 of the SAFE.

On December 28, 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (the "Notice"), effective from January 1, 1994. The 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 March 26, 1994, the PBOC promulgated the "Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Provisional Regulations"). The 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 January 29, 1996, the State Council promulgated new Regulations of Foreign Exchange (the "Foreign Exchange Regulations") which was effective from April 1, 1996. The Control of Foreign Exchange Regulations 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 Control of Foreign Exchange Regulations were subsequently amended on January 14, 1997. 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" (the "Settlement Regulations") which entered into effect on July 1, 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 "Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-invested Enterprises" (the "Announcement").

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 specialised accounts for capital account receipts and payments at designated foreign exchange banks.

On October 25, 1998, the PBOC and the SAFE promulgated the Notice Concerning Closure of the Foreign Exchange Swap Business Activities 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.

Since January 1, 1994, the former dual exchange rate system for Renminbi has been abolished and replaced by a managed 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.

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 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 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 (like the Company), 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.

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 PRC governmental policies were introduced 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, requires the approval of the SAFE and other relevant authorities.