

*The following discussion is a summary of certain anticipated tax consequences of our operations and of an investment in our Shares under Hong Kong tax laws and the PRC income tax laws. The discussion does not purport to address all possible tax consequences relating to our operations or to an investment in our Shares. In particular, the discussion does not address the tax consequences under non-Hong Kong and non-PRC tax laws. Accordingly, you should consult your tax adviser regarding the tax consequences of your investment in our Shares. The following discussion is based upon laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change.*

## **PRC Taxation**

### *Corporate income tax for our China operations*

According to the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises promulgated by the National People's Congress on April 9, 1991 and its implementation measures promulgated by the State Council in June 1991, the income tax on enterprises with foreign investment shall be computed on the taxable income at the rate of 30%, and local income tax shall be computed on the taxable income at the rate of 3%. Pursuant to the Provisional Regulations of the People's Republic of China on Enterprise Income Tax issued by the State Council in December 1993 and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Income Tax issued by the Ministry of Finance in February 1994, the income tax rate applicable to enterprises is 33%.

The Tenth National People's Congress enacted a new Enterprise Income Tax Law on March 16, 2007, which provides for a unified income tax rate of 25% to both domestic enterprises and foreign-invested enterprises. The new tax law will become effective on January 1, 2008. As a result, the tax rate for domestic enterprises will be reduced to 25%, whereas the tax rate for foreign-invested enterprises that have enjoyed preferential tax treatment, including our sino-foreign joint venture, Jinan Fuqiang Power, will be increased to 25% upon the expiration of their preferential tax treatment.

In addition, according to the new income tax law, if an enterprise incorporated outside China has its "effective management" located within China, such enterprise may be recognized as a PRC tax resident enterprise and be subject to enterprise income tax at the rate of 25% on its worldwide income. As a majority of the members of our management team is located in China, we cannot rule out the possibility that the Company and members of our Group may be recognized as a PRC tax resident enterprise and subject to the unified enterprise income tax rate of 25% on its worldwide income.

### *Value-add tax for our China operations*

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax, effective January 1, 1994, and their implementing rules, our subsidiaries in China are subject to value-added taxes in China for goods sold and services provided in China. Except for certain specified categories of goods sold or imported the value-added tax rate for the sale or import of which is 13%, the tax rate for sales or import of goods and provision of various services is 17%. The amount of tax payable on the sale of goods or the provision of taxable services is the balance of the amount of tax on sales for the current period after deducting or setting off the amount of tax on purchases for the current period.

*Business tax for our China operations*

Pursuant to the Provisional Regulations of the PRC concerning value-added tax effective from January 1, 1994 and their implementing rules, our subsidiaries in China are subject to business taxes either at the rate of 3% or at 5% of the amount of taxable services or other transactions, such as labor services, assignments of intangible assets and sale of immovable property in China. Entertainment businesses in China are subject to the business taxes at rates between 5% to 20% on basis of their revenues.

*Dividends from our China operations*

Under the current PRC tax laws, regulations and rulings, dividends paid by our PRC subsidiaries or associated companies, which are foreign-invested enterprises in China, to us are currently exempt from PRC withholding or income tax.

In March 2007, the National People's Congress adopted the Enterprise Income Tax Law, which will become effective on January 1, 2008. Under this new income tax law, dividends from PRC subsidiaries to their foreign shareholders will be subject to a withholding tax at a rate of 20%, unless the jurisdiction of incorporation of such foreign shareholders has a tax treaty with China that provides for a different withholding arrangement. We understand that Hong Kong where we were incorporated has an arrangement of withholding tax at 5% with China for such dividends payments if we hold an interest of 25% or more in our PRC subsidiaries. Although this new income tax law also provides for the possibility of a withholding tax exemption or reduction, it is not yet certain because the detailed implementing rules have not yet been published and we are not in a position to determine if we would be eligible. See "Risk Factors - Dividends from our PRC subsidiaries may be subject to withholding tax under the new PRC tax law".

*Dividends paid by us to our investors*

We are not incorporated in China. Under the current PRC laws, even though we have significant operating subsidiaries and associated companies in China, the distribution of dividends by us to our overseas investors such as yourself is not currently subject to PRC tax.

*Transfer or disposition of our Shares*

As we are not incorporated in China, under the current PRC laws, any transfer or disposition of our Shares by an overseas investor such as yourself does not trigger PRC tax liabilities.

**Hong Kong Taxation***Dividends*

No tax is payable in Hong Kong in respect of dividends paid by us.

Dividends distributed by us to our Shareholders are free of withholding taxes as there are no withholding taxes in Hong Kong.

*Capital gains and profit tax*

No tax is imposed in Hong Kong in respect of capital gains from the sale of our Shares. Trading gains from the sale of Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 17.5% and on unincorporated businesses at a maximum rate of 16.0%. Gains from sales of our 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 the Shares. The duty is charged at the *ad valorem* rate of 0.1% of the consideration for, or (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, a fixed duty of HK\$5 is charged on each instrument of transfer (if required). Where a sale or purchase of 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 shares whose deaths occur on or after February 11, 2006.

**Avoidance of Double-Taxation Arrangement Between Mainland China and Hong Kong**

We are subject to an avoidance of double taxation arrangement between mainland China and Hong Kong with respect to Hong Kong taxes from the year of assessment beginning on or after April 1, 2007 and with respect to PRC taxes from the taxable year beginning on or after January 1, 2007.

Dividends we receive from our operating subsidiaries in China are currently exempt from PRC taxation. Under the current PRC tax law, this tax exemption is available to dividends paid by any foreign-invested enterprise in China with at least 25% of its registered capital held by foreign investors. In the event that the PRC government decides to withdraw the tax exemption, we will instead be subject to a 5% withholding tax rate under the avoidance of double taxation arrangement between mainland China and Hong Kong so long as we hold at least 25% of equity interests in our PRC operating entities.

Interest payments we receive from our bona fide loans to our operating subsidiaries or other entities in China will be subject to a 7% withholding tax rate under the avoidance of double taxation arrangement between mainland China and Hong Kong. Royalty payments we receive from licensing of our intellectual properties to our operating subsidiaries or other entities in China will also be subject to a 7% withholding tax rate under this arrangement between mainland China and Hong Kong.