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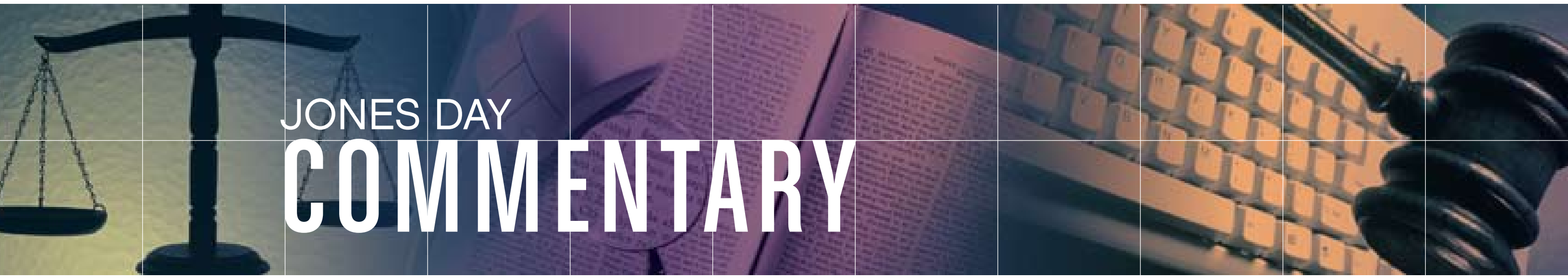

A SUMMARY OF CHINA'S CORPORATE INCOME TAX INCENTIVES

Prior to 2008, China had two Corporate Income Tax ("CIT") systems. One applied to foreign enterprises and Chinese enterprises with foreign investment of 25 percent or more; the other applied to all other enterprises. Different tax incentives were provided under the two systems. On March 16, 2007, China passed the Corporate Income Tax Law (the "CIT Law"), which came into effect on January 1, 2008. The CIT Law has unified the two CIT systems, reduced the CIT rate from 33 percent to 25 percent, and provided unified tax incentives to both domestic and foreign-invested enterprises. The Detailed Rules for the Implementation of Corporate Income Tax Law (the "CIT Rules") and various tax circulars were issued to clarify the tax incentives offered by the CIT Law.

Enterprises established prior to March 16, 2007, are eligible for certain types of relief during a transition period, including:

- If an enterprise enjoyed a 15 percent CIT rate under the old tax laws and regulations, the applicable rates will be 18 percent, 20 percent, 22 percent, 24 percent, and 25 percent for 2008, 2009, 2010, 2011, and 2012 respectively.

- If an enterprise was granted a tax holiday or reduced rate for a fixed period under the old laws and regulations, it can continue the tax holiday or reduced rate during the fixed period. However, if the enterprise did not start the tax holiday in 2007 due to a lack of profits, 2008 will be deemed to be the first profit-making year.

What CIT incentives other than the transitional relief are available? What CIT incentives are available to Chinese resident enterprises established today? The table below summarizes the major CIT incentives provided by the CIT Law, the CIT Rules, and tax circulars published through June 30, 2008.

Area	Incentive	Criteria	Authority
Interest from state treasury debts	Tax exemption	Interest derived from the state treasury debts issued by the finance department of the State Council.	CIT Law Art. 26 (1) CIT Rules Art. 82
Dividends paid between resident enterprises	Tax exemption	Dividends, profit distributions, and other returns on equity investments derived by a resident enterprise from its direct investment in another resident enterprise, except dividends derived from publicly issued and traded shares of a resident enterprise that are held for less than 12 consecutive months.	CIT Law Art. 26 (2) CIT Rules Art. 83
Agriculture, forestry, animal husbandry, fishery	Tax exemption	Income derived from the following projects: - Growing of vegetables, grains, tuber crops, oil plants, beans, cotton, hemps, sugar crops, fruits, and nuts - The selection and cultivation of new agricultural species - The growing of Chinese medicinal herbs - The cultivation and growing of forests - The rearing of livestock and poultry - The harvesting of forestry products - Irrigation, preliminary processing of agricultural products, veterinary services, promotion of agricultural technologies, operation and maintenance of agricultural machineries, and similar agricultural, forestry, animal husbandry, fishery services projects - Fishing on the high seas.	CIT Law Art. 27 (1) CIT Rules Art. 86 (1)
	50% reduction in CIT rate	Income derived from the following projects: - The growing of flowers, tea plants, and other crops used for beverages and spices; - Sea and inland water aquaculture.	CIT Law Art. 27 (1) CIT Rules Art. 86 (2)
Public infrastructure	3-year exemption and 3-year 50% reduction, starting from the year in which the project first generates operating income	Ports and wharfs, airports, railways, highways, urban public transportation, electric power, water suppliers, etc. as prescribed in the Catalog of Public Infrastructure Projects Eligible For Preferential Corporate Income Tax Treatment.	CIT Law Art. 27 (2) CIT Rules Art. 87
Synergistic utilization of resources	10% revenue exclusion in computing taxable income	Revenue derived from the use of the resources prescribed in Catalogue of Preferential Corporate Income Tax Treatments for Synergistic Utilization of Resources as the raw materials in the production of goods. The proportion of the amount of raw materials used in production shall not be lower than the criteria prescribed in the catalogue.	CIT Law Art. 33 CIT Rules Art. 99

Area	Incentive	Criteria	Authority
Security investment funds	Temporary tax exemption	Income derived by securities funds from securities market, including stock and bond trading, dividends, interest, and other income. Income derived by investors from securities funds. Gain derived by investment securities fund managers from trading stocks and bonds using the funds.	Cai Shui (2008) No.1 Art. 2
Environmental protection and energy or water conservation	3-year exemption and 3-year 50% reduction, starting from the year in which the project first generates operating income	Includes public sewerage treatment, public refuse treatment, synergistic development and utilization of methane, technological innovation in energy conservation and emission reduction, sea water desalination, and similar projects. The qualification criteria and the scope shall be formulated by the departments of the State Council in charge of finance and taxation in conjunction with relevant departments of the State Council, and shall be promulgated and implemented with the approval of the State Council.	CIT Law Art. 27 (3) CIT Rules Art. 88
	10% of the amount invested in specialized equipment may be credited against tax payable for the current year; the excess credit may be carried forward for 5 years	Purchase and actual usage of specialized equipment for environmental protection, energy or water conservation, and safe production as prescribed in Catalogue of Preferential Corporate Income Tax Treatments for Specialized Equipment in Environmental Protection, Catalogue of Preferential Corporate Income Tax Treatments for Specialized Equipment in Energy or Water Conservation, and Catalogue of Preferential Corporate Income Tax Treatments for Specialized Equipment in Safe Production. Tax benefits will be clawed back if the enterprise subsequently transfers or leases the equipment within 5 years.	CIT Law Art. 34 CIT Rules Art. 100
Small-scale enterprises with low profitability	Reduced rate of 20%	For industrial enterprises, the taxable income for the year shall not exceed RMB300,000, total number of employees shall not exceed 100, and total assets shall not exceed RMB30 million. For all other enterprises, the taxable income for the year shall not exceed RMB300,000, total number of employees shall not exceed 80, and total assets shall not exceed RMB10 million.	CIT Law Art. 28 CIT Rules Art. 92
Employment of disabled employees	Additional deduction of 100% of salaries paid to disabled employees	The relevant rules of the Law on Safeguard of Disabled Persons shall apply with respect to the determination of the qualifications of the disabled personnel.	CIT Law Art. 30 (2) CIT Rules Art. 96
Venture capital	70% of qualified investments may be set off against the taxable income; the excess amount can be carried forward	A venture capital enterprise has invested, in the form of equity investment, in a medium- to small-sized high and new technology enterprise that has not been listed on a stock exchange for more than 2 years.	CIT Law Art. 31 CIT Rules Art. 97

Area	Incentive	Criteria	Authority
Western Region (Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Ningxia, Qinghai, Xinjiang, Inner Mongolian, and the Guangxi; also applies to Xiangxi Tujia-Miao Autonomous Prefecture in Hunan Province, Enshi Tujia-Miao Autonomous Prefecture in Hubei Province, and Yanbian Korean Autonomous Prefecture in Jilin Province)	Reduced rate of 15% through December 31, 2010	An enterprise set up in the Western Region with main business in encouraged industries according to relevant investment catalogues. For a domestic enterprise, 70% or more of its revenue should be derived from the business listed in The Catalogue of Industries, Products, and Technologies Whose Development Are Currently Encouraged by the State (revised in 2000); for a foreign-invested enterprise, 70% or more of its revenue should be derived from the business listed in The Catalogue of Industries for Guiding Foreign Investment and the Catalogue of Preferred Industries for Foreign Investment in Central and Western Region.	Guo Fa (2007) No.39 Art. 2 Cai Shui (2001) No.202
	2-year exemption and 3-year 50% reduction from the first profit-making year for foreign-invested enterprises and from the first operating year for domestic enterprises	An enterprise set up in the Western Region for which at least 70% of its total revenue is derived from the transportation, electricity, water conservancy, post, broadcasting, and television industries.	
Ethnic autonomous regions	Reduction or exemption for the part of CIT as retained by the ethnic autonomous regions	Determined by autonomous prefectures and counties subject to approval of the government at the provincial level.	CIT Law Art. 29 CIT Rules Art. 94
Technology transfer	Tax exemption	Income from technology transfer that does not exceed RMB5 million in a year.	CIT Law Art. 27 (4) CIT Rules Art. 90
	50% reduction	Income from technology transfer that exceeds RMB5 million in a year.	

Area	Incentive	Criteria	Authority
High and new technology enterprise	Reduced rate of 15%	Must meet all of the following qualifications: Registered in China for at least one year. Owns IP right or exclusive right to use the IP of core technology in connection with the main products (services) of the enterprise. Products or services must be within the scope of the Catalogue of High and New Technology Areas Specifically Supported by the State. These areas are electronic information technology, biological and medical technology, aviation and space technology, new materials technology, high-tech services, new energy and energy conservation technology, resources and environmental technology, and the transformation of traditional sectors through new high-tech. At least 30% of the enterprise's employees should be college graduates (three-year program or above); among the qualified staff, at least 10% of the total number of employees should be engaged in R&D activities. R&D expenditures for the last three accounting years should at least 6%, 4%, and 3% of total revenue if prior-year revenue is below RMB50 million, RMB50 million to 200 million, and more than RMB 200 million, respectively. At least 60% of the minimum R&D expenditure must be incurred in China. Current-year income from high and new technology products (services) is at least 60% of total revenue. Meets all requirements respecting the rating of R&D management, the capacity to convert R&D outcomes, the number of IP rights, and the growth of sales and total assets as provided in Administrative Working Guidelines of Assessment of High and New Technology Enterprises.	CIT Law Art. 28 (2) CIT Rules Art. 93 Guo Ke Fa Huo (2008) No.172
	2-year exemption, 3-year 12.5% reduction, and then 15%, starting from the year in which the project first generates operating income	High and New Technology Enterprises established in Shenzhen, Xiamen, Zhuhai, Shantou, Hainan, and Shanghai Pudong New Area on or after January 1, 2008.	Guo Fa (2007) No.40
R&D expenditures	150% deduction or amortization based on 150% of capitalized expenses	R&D expenditure for development of new technologies, new products, and new technological process.	CIT Law Art. 30 (1) CIT Rules Art. 95

Area	Incentive	Criteria	Authority
Fixed assets depreciation	Shorten depreciable period by 40% or accelerated depreciation	Fixed assets that are upgraded and replaced frequently due to advancement in technologies or are exposed to constantly high levels of vibration or corrosion.	CIT Law Art. 32 CIT Rules Art. 98
	2-year depreciation or amortization	Acquired software and Approval of tax authority.	Cai Shui (2008) No.1 Art. 1 (5)
	Shorten depreciable period to minimum 3 years	Manufacturing equipment for integrated circuit production enterprises and Approval of tax authority.	Cai Shui (2008) No.1 Art. 1 (7)
Software; Integrated circuit design	CIT exclusion of VAT refund	Software enterprises and integrated circuit design enterprises; VAT refund is in connection with the sale of self-developed software products; and The refund is used for software R&D and the expansion of production.	Cai Shui (2008) No.1 Art. 1 (1) & (6)
	2-year exemption and 3-year 50% reduction from the first profit-making year	Newly established software enterprises or newly established integrated design enterprises.	Cai Shui (2008) No.1 Art. 1 (2) & (6)
	Reduced rate of 10%	Key software/integrated circuit design enterprises included in the State plan, if not otherwise eligible for CIT exemption that year.	Cai Shui (2008) No.1 Art. 1 (3) & (6)
	Employee training expenses can be deducted as incurred	Software enterprises and integrated circuit design enterprises (staff education expenses for other enterprises are limited to 2.5% of total salary).	Cai Shui (2008) No.1 Art. 1 (4) & (6)

Area	Incentive	Criteria	Authority
Integrated circuit production	Reduced rate of 15%	Integrated circuit production enterprise with a total investment exceeding RMB8 billion or whose integrated circuit width is less than 0.25um	Cai Shui (2008) No.1 Art. 1 (8)
	5-year exemption and 5-year 50% rate reduction from the first profit-making year and then reduced rate of 15%	Integrated circuit production enterprise with a total investment exceeding RMB8 billion or whose integrated circuit width is less than 0.25um, with an operating period of no less than 15 years.	Cai Shui (2008) No.1 Art. 1 (8)
	2-year exemption and 3-year 50% reduction from first profit-making year	Integrated circuit production enterprise whose circuits are less than 0.8um.	Cai Shui (2008) No.1 Art. 1 (9)
	Refund of 40% of tax paid on profit reinvested from January 1, 2008, to December 31, 2010	An investor in integrated circuit production or packaging enterprise reinvests after-tax profits in 1) the same enterprise by increasing registered capital or 2) other integrated circuit production or packaging enterprises by establishing new enterprises; the reinvestment period shall not be less than 5 years.	Cai Shui (2008) No.1 Art. 1 (10)
	Refund of 80% of tax paid on profit reinvested from January 1, 2008, to December 31, 2010	Investors that are economic organizations use the after-tax profits from domestic enterprises as capital to establish integrated circuit production enterprises, integrated circuit packaging enterprises, or software production enterprises in the Western Region; the reinvestment period shall not be less than 5 years.	

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