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PRESS RELEASE

China Clarifies Tax Rules for Enterprise Reorganizations

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On April 30, 2009, the Ministry of Finance and the State Administration of Taxation (the "SAT") jointly issued the Notice on Certain Issues of Corporate Income Tax Treatment of Enterprise Reorganizations (the "Notice"). The Notice provides corporate income tax treatment of various types of reorganizations including debt restructurings, acquisitions of equity, acquisitions of assets, mergers, and de-mergers.

On July 26, 2010, the SAT issued the Measures on Administration of Corporate Income Tax Concerning Enterprise Reorganizations (the "Measures") which have clarified some tax rules provided in the Notice and set forth guidance for documentation and filings for reorganization

On date of reorganization, a gain or loss generally is recognized on the date of reorganization in an ordinary (taxable) reorganization. For a special (tax-free) reorganization, the date of reorganization determines the time of reporting for the reorganization. On valuation of assets or shares transferred, the Measures stipulate respectively on enterprises' acquiring the assets or sharing of another enterprise in a special reorganization and in a taxable reorganization. As to business purpose, a bona fide business purpose is required for all special reorganizations; and if an enterprise makes filings for a special reorganization, it should explain the business purpose in certain areas. Also, the Measures stipulate the limitation of use of net operating losses in mergers and filing and confirmation requirements.

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