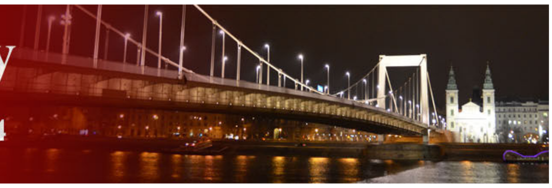
SINO-BRIDGE Consulting Group

China Business Advisory



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Relaxed Foreign Exchange Controls in Shanghai Pilot Free Trade Zone

Further to the expanded cross-border usage of RMB within the China (Shanghai) Pilot Free Trade Zone ("FTZ") referred to in our March newsletter, the Shanghai Branch of the State Administration of Foreign Exchange issued detailed implementation Rule No. 26 to designated banks in Shanghai on 28th February 2014 (the "Rule") allowing relaxed foreign exchange controls over qualified FTZ entities in the following areas:

- Simplification of foreign exchange verification procedures by banks on current account foreign exchange receipts and payments in relation to transactions conducted in the ordinary course of business transactions (such as sales and purchases) based on the principles of "know your customers", "know your businesses" and "due diligence".
- Simplification of registration procedures for foreign exchange receipts relating to direct investment, allowing banks to handle foreign exchange registration in relation to direct investment and related changes. Foreign Invested Enterprises ("FIE") are allowed to convert injected capital in foreign currency into designated RMB account based on the wishes of the FIEs (payments through the designated account will continue to be based on actual transactions).
- Relaxed foreign debt and loan management, including the cancellation of administration approval requirements for cross border guarantees, increase of the ceiling for loans to overseas invested enterprises from 30% to 50% of the FIE's total shareholders' equity (with the possibility of exceeding this ceiling to be decided by the State Administration of Foreign

Exchange on a case by case basis), and cancellation of approval requirements for leasing loans from foreign finance leasing entities, allowing finance leasing entities in China to receive leasing rentals in foreign currencies.

- Enhancing centralised management of foreign exchange by headquarters of multinational companies, allowing multinational companies to set up foreign currency pooling and international trade settlement centre, relaxation of requirements in these regards for FTZ entities, and simplification of approval process for and control over these accounts.
- Enhancing foreign exchange settlement management, facilitating banks to extend business of large scale over the counter transactions of derivative products to FTZ entities.

Urbanisation and Economic Growth in China

According to an article with the title "Building the dream" in The Economist on 19th April 2014, by 2030 Chinese cities will be home to about 1 billion people. It is expected that urbanisation in China will be matched by massive development in infrastructure including (but not limited to) the high-speed rail network. Number of skyscrapers over 250 metres tall in China has already exceeded that in the United States (72 vs 43). Over 90% of these skyscrapers in China (vs around 30% in the US) were completed during the period from 2000. China's nominal GDP is expected to surpass that of the United States before 2030. Middle class in China is expected to grow, leading to higher purchasing power with commensurate influence on the economy. On the other hand, labor supply is set to dwindle resulting in surplus labour on the countryside disappearing by 2017. The growth is likely to present opportunities but there are likely a host of issues that await the Chinese government to tackle.

New Guidelines on Determining Locality of Profits of Hong Kong Companies

On 28th February 2014, the Inland Revenue Department in Hong Kong ("IRD") published an advance ruling case on determining the locality of trading profits where the provision of trade finance by banks in Hong Kong is listed as one of the important factors in relation to the trade to earn the profits. The IRD also stated that the roles of the overseas office in negotiating and concluding orders were not clear from the documentations provided to them.

In view of this it is advisable for Hong Kong companies to take special care in deciding on the division of operations to be undertaken by its Hong Kong and overseas operations and to pay particular attention to the need for adequate documentation to substantiate their offshore claims.

Service Highlight

The Chinese government has put strenuous efforts lately to improve the investment environment in China through reforms in many key areas including business registration, tax, foreign exchange control and customs administration.

To this end many new policies and regulations have been released and old ones revised. More are expected to come to facilitate doing business in China. We are more than pleased to discuss with you how to leverage these positive measures to enhance your business success.

Our Marketing Executive, Ms. Yannes Lam, who can be reached at (852) 3579 8745 and yanneslam@sinobridge-consulting.com, looks forward to hearing from you.

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