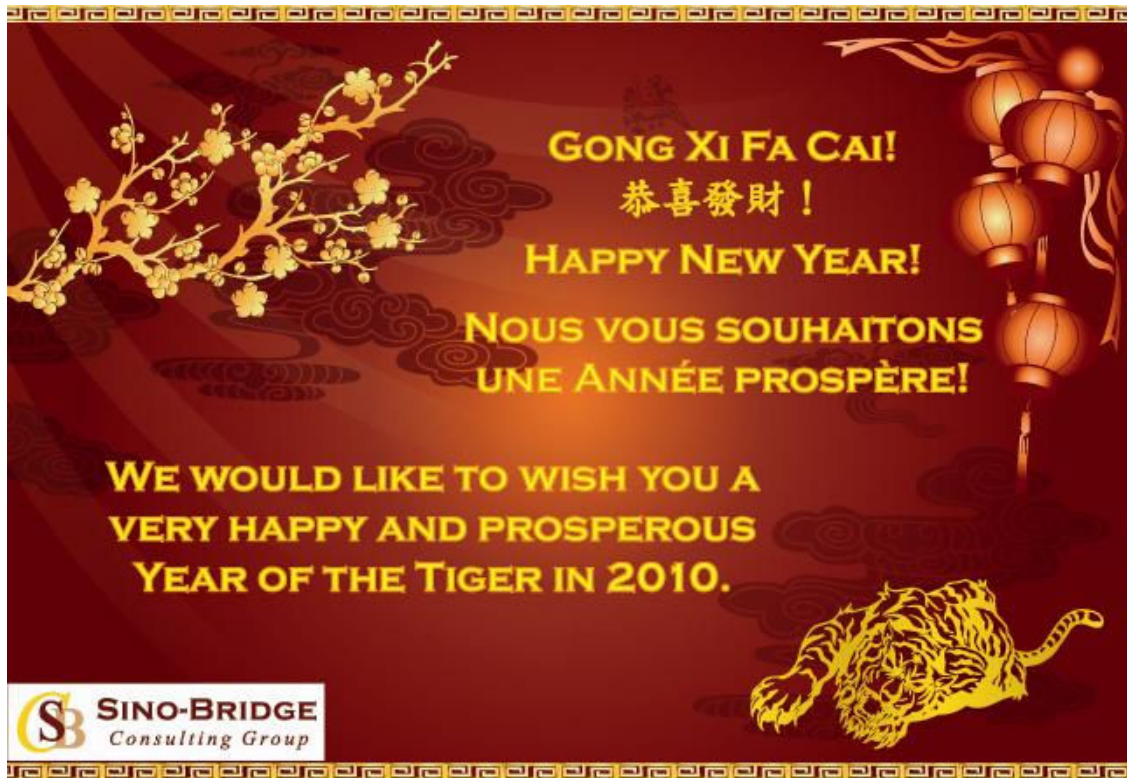


## China Business Advisory

2010 Issue 2

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### Economic News

#### China's current-account surplus fell by 35% in 2009

According to preliminary estimates released by the State Administration of Foreign Exchange (“SAFE”) in February, China’s current-account surplus fell by more than one third, to US\$284.1 billion in 2009. It is the first significant drop since 2001 and apparently reflects the impact of the global financial crisis. China’s trade surplus shrank to US\$249.3 billion in 2009, down from US\$368.7 billion in 2008 resulting from a decline in export accompanied by an increase in import helped by the stimulus package the government instigated in the wake of the financial crisis. The total surplus stood at 5.8% of the GDP, compared to 9.4% in 2008 and 11% in 2007.

## Tax in China

### Rules clarified on the deductibility of interests of loans from individuals

State Administration of Taxation (“SAT”) issued a circular on December 31st, 2009 to clarify the detailed requirements on the deductibility of interest expenses paid on loans from individuals. The main ones include:

- ◆ The rules for deductible interest payments on loans from shareholders or “other affiliated natural persons” should follow existing regulations for deductible interest payments made to related-parties such as Caishui [2008] No.121 which introduced detailed criteria and requirements.
- ◆ For interest payments on loans from employees or persons other than shareholder or affiliated natural persons to be deductible for tax purposes, they must meet the following criteria:
  - ✓ The interest rate should not exceed the comparable lending rate of similar loans offered by financial institutions;
  - ✓ The loan must not be for the purpose of illegal fundraising and must be authentic, legal and valid;
  - ✓ A lending contract must exist.

This is a further step on to deal with thin capitalization in the course of the development of transfer pricing regulations.

## Shanghai World Expo 2010

### China pavilion at the Expo completed



The construction of China pavilion at the 2010 Shanghai World Expo, which commenced in December 2007, was completed in early February this year. Almost one thousand people, including designers, workers and officials, attended the ceremony of completion filled with red lanterns, fireworks, floating balloons and ribbons as well as deafening gongs and drums. The pavilion stands on the eastern bank of Huangpu River in Pudong. With the upper layers larger than the lower ones, it takes the shape of a Chinese traditional emperor’s crown. The 63 meter high building, with a total floor space of 160,000 square meters shared by a national hall and a regional hall, will no doubt help the Expo attract more visitors from all over the world.

## Service Highlight

With only 2 months to go before the grand opening of World Expo 2010 in Shanghai, do you have any plan to leverage it for your business? Sino-Bridge will organize a number of 5 day packages from May to Oct 2010 intended to:

- ◆ Give you a highlight of the fascinating architectures of the pavilions and the display by over 200 participating countries in the Expo site and the UBPA zone;
- ◆ Provide you with some insight about operating a business in China through seminars, visits to development zones and entities operating therein and meeting with local officials from different government departments;
- ◆ Offer opportunities for one-to-one meetings with people of interest to the development of your business in China.

With our own professional team and experienced associates in Hong Kong and Mainland China, we are able to come up a program tailored to your needs! For more information, please contact:

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