

Principal Tricolor subsidiaries in Hong Kong

Abacus Share Registrars Limited
Secretaries Limited
Standard Registrars Limited
Strath Corporate Services Limited
Tengis Limited
Tricolor Executive Resources Limited
Tricolor Investor Services Limited

New Double Tax Arrangement Strengthens Hong Kong's Position as the Investment Gateway to China

On 21 August 2006, the Mainland Government and the Government of the Hong Kong Special Administrative Region signed a new double taxation arrangement ("the Arrangement") replacing the existing arrangement signed in 1998. Subject to completion of the necessary ratification procedures, the Arrangement will be effective from the 2007 tax year for Mainland China and year of assessment 2007/08 for Hong Kong.

BENEFITS TO INTERNATIONAL INVESTORS

The Arrangement will enhance Hong Kong's position as a gateway for multi-national companies establishing operations in Mainland China by providing clear tax incentives for investing in the Mainland through Hong Kong.

Reflecting the close economic ties between the Mainland and Hong Kong, the Arrangement provides preferred tax treatment to both businesses and individuals resident in Hong Kong. The withholding rates on dividends, royalties and interest under the Arrangement are amongst the lowest available in double tax treaties signed by the Mainland, making Hong Kong an attractive location for setting up an intermediate holding, financing or licensing vehicle for investing in the Mainland.

The certainty and preferential tax treatment available under the Arrangement will provide protection to Hong Kong

enterprises investing in the Mainland in the event that the current tax exemptions (e.g. the tax exemption on certain dividends) are repealed under the Mainland's ongoing tax reforms.

SUMMARY OF THE PRINCIPAL TAX FEATURES

The Arrangement broadens the scope of the provisions under the existing arrangement with regards to withholding taxes on dividends, royalties and interest and to capital gains tax.

	Withholding tax rate on		
	Dividends	Royalties	Interest
Before the Arrangement	0% / 10%	10%	10%
After the Arrangement	5% / 10%	7%	0% / 7%



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Before the Arrangement, dividends from foreign investment enterprises with at least 25% registered capital held by foreign shareholders are specifically exempt under Mainland tax law. Under the Arrangement, a 5% withholding tax would apply to dividends paid by a Mainland company to a Hong Kong company which holds at least 25% of the capital of the Mainland company, and a rate of 10% would apply in all other cases. Whether the existing tax exemption on dividends derived from foreign investment enterprises will continue to be available to foreign investors will be subject to the new income tax reform likely to be announced by the Mainland Government in 2007.

The withholding tax rates on royalties and interest are reduced under the Arrangement.

The Arrangement contains exemptions from capital gains tax when a foreign investor disposes of shareholdings and other assets in China.

OTHER KEY FEATURES

Exchange of Information

The Arrangement contains provisions for the exchange of information between the Mainland and Hong Kong tax authorities but only to the extent that is necessary in order to carry out the provisions of the Arrangement in accordance with the laws of each jurisdiction. Exchanges of information regarding, e.g., Mainland customs duty, are thus not permitted.

Employment Income

Under the Arrangement, the method of determining the number of days of presence in the Mainland is changed from 183 days in a calendar year to 183 days in any 12-month period. This may create complications for individual taxpayers and for companies in monitoring the movements of their employees who travel frequently to the Mainland.

COMPARISON WITH EXISTING TAX TREATIES

Mainland China has previously entered into double tax treaties with *inter alia* Barbados, Macau, Mauritius, Singapore and US. A comparison of withholding rates under these treaties is set out in the table below.

	Withholding tax rate on		
	Dividends	Royalties	Interest
Hong Kong	5% / 10%	7%	0% / 7%
Barbados	5%	10%	10%
Macau	10%	10%	7% / 10%
Mauritius	5%	10%	10%
Singapore	7% / 12%	10%	7% / 10%
US	10%	10%	10%

Overall, the withholding rates under the Arrangement with Hong Kong are more favourable than under the other treaties.

CONCLUSION

Enterprises already operating in, or considering establishing a business in the Mainland, should review their investment structures to determine if they can benefit from the provisions of the Arrangement. The Arrangement will provide greater certainty to an enterprise investing in the Mainland through a Hong Kong investment vehicle and will reduce the overall tax burden on profits derived from the Mainland.

The Arrangement should consolidate Hong Kong's position as the investment gateway to China.

Should you need further information or clarification regarding the content of this TechNews, please do not hesitate to approach any of your Tricor contacts.



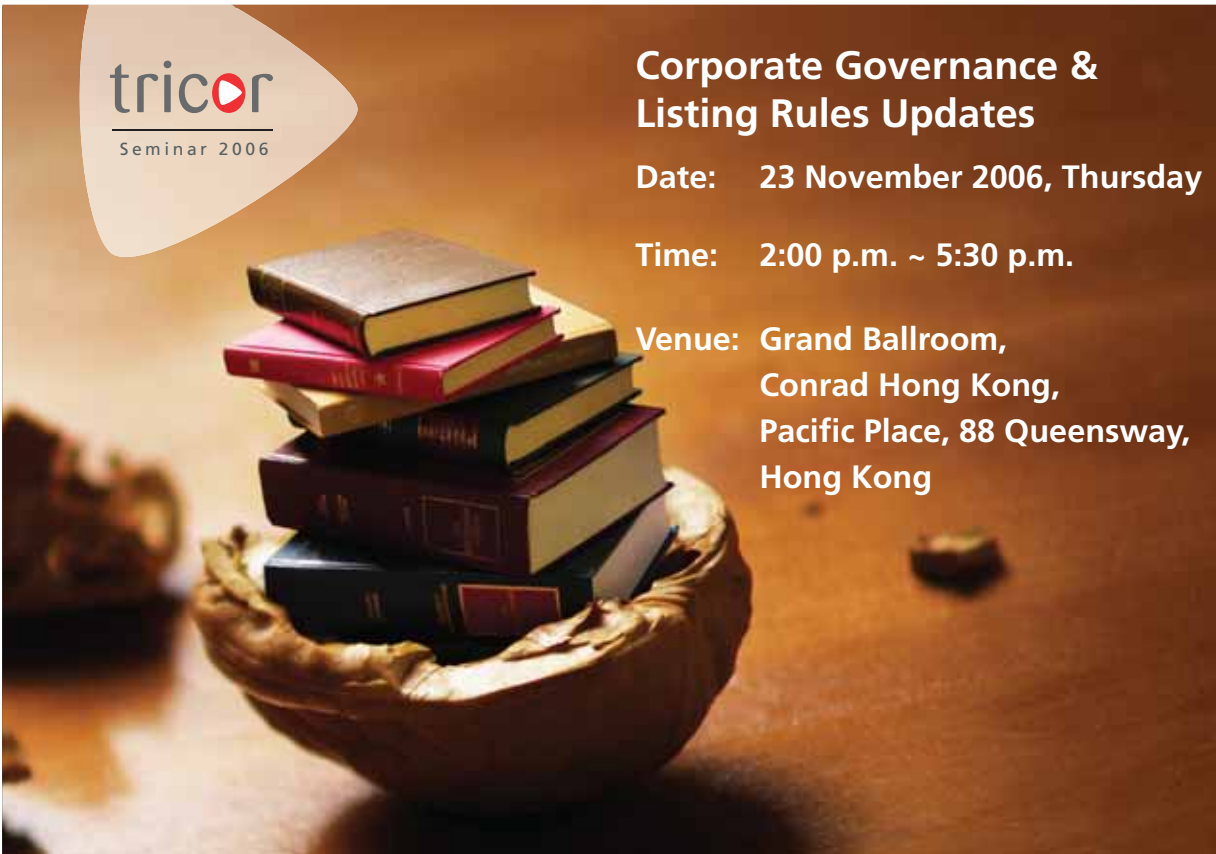
tricor
Seminar 2006

Corporate Governance & Listing Rules Updates

Date: 23 November 2006, Thursday

Time: 2:00 p.m. ~ 5:30 p.m.

Venue: Grand Ballroom,
Conrad Hong Kong,
Pacific Place, 88 Queensway,
Hong Kong



We are pleased to invite our valued clients and business partners to our 2006 Tricor Seminar.

The Seminar will be held on 23 November 2006 at Conrad Hong Kong. The focus will be corporate governance and listing rules updates.

Don't miss this important event. Please mark this in your diary. Details of the Seminar will be sent to you in October.

Latest information about the Seminar is posted at www.tricor.com.hk/2006seminar.

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Tricor has built its reputation and professional expertise through the acquisition of certain practices from major international accounting firms in Hong Kong, Mainland China, Singapore, Thailand and the BVI.

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