

**PROTOCOL CONCERNING THE INTERPRETATION OF  
PARAGRAPH 7 OF THE PROTOCOL  
TO THE AGREEMENT BETWEEN  
THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA  
AND THE GOVERNMENT OF THE UNITED STATES OF  
AMERICA  
FOR THE AVOIDANCE OF DOUBLE TAXATION AND  
THE PREVENTION OF FISCAL EVASION WITH RESPECT  
TO TAXES ON INCOME, SIGNED AT BEIJING ON  
APRIL 30, 1984.**

The Government of the People's Republic of China and the Government of the United States of America, desiring to conclude a Protocol in addition to the Agreement between them for the avoidance of double taxation and the prevention of tax evasion, and the supplementary Protocol attached thereto, have agreed as follows:

Both sides have agreed, with respect to the interpretation of paragraph 7 of the Protocol to the Agreement, that their understanding is as follows:

1. A person (other than an individual) which is a resident of a Contracting State shall not be entitled under this Agreement to relief from taxation in the other Contracting State unless:

- (a) (i) more than 50 percent of the beneficial interest in such person (or in the case of a company more than 50 percent of the number of shares of each class of the company's shares) is owned, directly or indirectly, by any combination of one or more of:
  - (A) individuals who are residents of one of the Contracting States;
  - (B) citizens of the United States;
  - (C) companies as described in subparagraph 1 (b) of this protocol;  
and
  - (D) one of the Contracting States, its political subdivisions or local authorities; and
- (ii) in the case of relief from taxation under Articles 9 (dividends), 10 (interest), and 11 (royalties), not more than 50 percent of the gross

income of such person is used to make payments of interest to persons who are other than persons described in clauses (A) through (D) of subparagraph (a) (i), whether directly or indirectly; or

(b) it is a company which is a resident of a Contracting State and in whose principal class of shares there is substantial and regular trading on a recognized stock exchange.

2. Paragraph 1 shall not apply if the establishment, acquisition and maintenance of such person and the conduct of its operations did not have as a principal purpose the purpose of obtaining benefits under the Agreement.

3. For the purposes of paragraph 1 (b), the term “a recognized stock exchange” means:

(a) the NASDAQ System owned by the National Association of Securities Dealers, Inc. and any stock exchange registered with the Securities and Exchange Commission as a national securities exchange for the purposes of the Securities Exchange Act of 1934; and

(b) any national securities exchange approved to be established by the Government of the People’s Republic of China or its authorized institution; and

(c) any other stock exchange agreed upon by the competent authorities of the Contracting States.

4. Before a resident of a Contracting State is denied relief from taxation in the other Contracting State by reason of paragraph 1, 2 and / or 3, the competent authorities of the Contracting States shall consult each other.

This Protocol is certified for addition to the Agreement and its supplemental Protocol by the undersigned.

Done at Beijing on the 10th day of May, 1986, in duplicate, in the Chinese and English languages, the two texts having equal authenticity.

**State Councillor and Minister of Finance**  
**People’s Republic of China**  
**Wang Bingqian**

**III Secretary of the Treasury**  
**United States of America**  
**James A. Baker**