

the term "earnings" means the profits attributable to such permanent establishments in Canada in a year and previous years after deducting therefrom:

- (a) business losses attributable to such permanent establishments (including losses from the alienation of property forming part of the business property of such permanent establishments) in such year and previous years,
- (b) all taxes chargeable in Canada on such profits, other than the additional tax referred to herein, and
- (c) the profits reinvested in Canada, provided that the amount of such deduction shall be determined in accordance with the existing provisions of the law of Canada regarding the computation of the allowance in respect of investment in property in Canada, and any subsequent modification of those provisions which shall not affect the general principle hereof.

7. The additional tax referred to in paragraph 6 shall be levied only to the extent that the cumulative amount of earnings of the company, or of a person related thereto from the same or similar business as that carried on by the company, exceeds five hundred thousand Canadian dollars (\$500,000).

ARTICLE II

Interest

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other Contracting State.

2. However, such interest may also be taxed in the Contracting State in which it arises, and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the interest the tax so charged shall not exceed 10 per cent of the gross amount of the interest.

3. Notwithstanding the provisions of paragraph 2, interest arising in a Contracting State is exempt from tax in that Contracting State, if it is paid:

(a) in the case of Canada:

- (i) to the Government of Canada;
- (ii) to the Bank of Canada;
- (iii) on a loan directly or indirectly financed or guaranteed by the Canadian Export Development Corporation;
- (iv) to a financial establishment owned by the Government of Canada and mutually agreed upon by the competent authorities of the Contracting States;

(b) in the case of the People's Republic of China:

- (i) to the Government of the People's Republic of China;
- (ii) to the People's Bank of China;