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KONNECT

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Newsletter

Contents

Food for Thought

a. Use of an offshore company for holding of assets / bank accounts / properties / investments would be a better option for proper inheritance planning as well as minimize estate / inheritance tax liabilities in various countries of the world

b. Appoint a nominee for bank accounts / investments outside UAE in order to avoid lengthy legal process for recovery of said balances by a legal heir

Current trends and data does indicate slowdown in BRICS economies which were expected to be the engines of growth during coming years and compensate for the slowdown in global economy due to recession hit Eurozone and US economies. Even job growth in US has slowed considerably hinting at nominal GDP growth.

It is now widely accepted fact that profligacy of past decade or two has resulted into huge borrowings & debts of major economies around the world and even the institutions which were advocating that fiscal deficit in range of 3% to 5% of GDP is good for economic growth have realized that this is not sustainable in the long run and results into hard landing and pain / misery for masses in general over a period of time. This is now proven and abundantly certain by looking at the plight of "common man" (which constitutes over 60% of the population) across the world whether it is developed economies or developing / underdeveloped economies. Unfortunate part is that the remedy adopted to cure this problem in heavily affected economies is spending cuts esp on essentials which aggravates the problem rather than curing it.

Challenges for economies around the world remain of how to stimulate the growth and minimize deficit & borrowings. Similar challenges remain for the corporate world as well wherein heavily leveraged entities need to relook at their debts vis-à-vis ability to sustain & settle this keeping in view the projected economic scenario. Cost cutting and debt reduction will be the "mantra" for survival in these challenging times.

We would be more than glad to clarify & assist in all matters pertaining to debt restructuring, budgeting, review, cost monitoring, liquidity monitoring & guidance, organizational restructuring and related matters.

KAA is now closer to it's customers in SAIF zone having setup an office in SAIF Zone.

Vipul R Kothari
Managing Partner

Member of:

IN BRIEF

Pre-leasing of warehouses begins at Kizad

Khalifa Industrial Zone Abu Dhabi (Kizad) has commenced pre-leasing warehousing projects in both its Free Zone and Non-Free Zone areas. The two projects will create more than 220,000m2 of storage and distribution warehouses and is estimated to be worth more than US$163.37 million after completion.

The leasing of pre-built warehouses on Kizad offers a ready-to-use solution for companies looking for a large warehouse space. Organizations are provided with an easy access to local, regional and international markets along with a minimal operating cost environment and meticulously planned setting intended to make business easy. It is targeted to be completed by Q2 in 2013.

Kizad aims to target large occupiers looking for a superior quality space that will compliment their business. Its two schemes provide units from 1,000m2 upwards. In Kizad's free zone area, an occupier can lease a single unit of more than 21,500 m2 whilst in its non-free zone area the largest single block is over 11,000m2. Kizad's pre-built warehouses are located near the new Khalifa Port, a new deep water container port. It is also within a few minutes' drive from both the E11 and the extension of the E311 Emirates Road.

IN BRIEF

Global plastics industry event organized in Sharjah

The regional plastics industry has been in a high-growth mode due to the huge demand arising from end-use segments like food & beverage, packaging and construction. This contributed to garnering an enormous buzz for the Plastivision Arabia show that was held at the Expo Centre Sharjah last month.

The packaging sector which is one of the primary drivers of the plastics industry is estimated to be around US$1.84 billion in 2011, recording growth at a CAGR of 4.27%. It is further estimated to grow at a CAGR of 4.68% and reach around US$2.3 billion in 2016. The construction sector in UAE is the second largest consumer of plastics. It is expected to gain approximately US$15 billion worth of contracts in 2012, a 26% increase from last year, with the total value of current projects valued at US $2.2 trillion. Food which is another key end-user segment had an annual consumer expenditure of US$23.3 billion in the UAE last year. It is expected to grow at a CAGR of 7.12% and reach US$33.7 billion in 2016.

Although the event was launched this year itself, it received an overwhelming response in the number of exhibitors and pre-registered visitors, not only from Indian firms but also other overseas participants. The US$25 billion Indian plastics industry had the largest number of exhibitors accounting for nearly half of the total participation, while the rest were from other countries like China, France, Germany, Hong Kong, Iran, Japan, South Korea, Saudi Arabia, Pakistan, Portugal, Qatar, Russia, South Africa, Spain, Switzerland, Taiwan, Turkey, the UAE and the UK. The largest group participation at the show was organized by UNIDO ICAMT, the International Centre for the Advancement of Manufacturing Technology (ICAMT), and the International Technology Center of the United Nations Industrial Development Organization (UNIDO).

The event provided comprehensive insights into various key segments like plastic processing, injection molding, thermoforming, packaging, industrial users, construction, infrastructure, automobile and telecommunication amongst others.

Plastivision Arabia featured some of the chief raw material producers, primary processing and auxiliary equipment suppliers from the region and around the world. On the other hand, ArabiaMold, which was co-organized by DEMAT Fairs & Exhibitions-Germany, presented molding equipment and services such as mold-making tools, filtration instruments, welding equipment, cooling systems and similar other industrial machines and accessories. It was a first of its kind exhibition that offered an ideal opportunity to the industry for becoming equipped to meet the future requirements and demands of this segment.

Economic indicators point to a strengthening recovery in Dubai

According to a report on Dubai's economic outlook, there has been significant increase of 10% in the number of visitors to Dubai last year as compared to the previous year. This is partly due to unrest in the other Middle Eastern countries. Dubai has hence benefited from its safe-haven status compared to the other volatile countries.

A survey done by the Dubai Department of Economic Development (DED) for the first quarter of this year indicated that the composite Business Confidence Index for Dubai was at a high of 120.5 points (The index crossing 100 points is a sign of investor confidence). Other subjective indicators such as an increased traffic on Sheikh Zayed Road or increase in rents in certain parts of Dubai also suggest a resurgent economy. In particular, the manufacturing, services and trading sectors are optimistic about sales revenues in the second quarter.

There was an increase in the number of new trade licenses issued by the DED in the first quarter by 27% as compared to last year. A majority of the new licenses issued comprised of commercial trading licenses followed by professional, industrial and tourism licenses. General trade continued to remain the busiest of the 10 licensed commercial activities.

The Dubai Multi Commodities Centre (DMCC) alone attracted around 612 companies in the Jumeirah Lakes Towers free zone between January and April this year with more than 100 companies from India.

The DED's report on the surge in new trade licenses is certainly a sign of the increasing investor interest in engaging in a diverse range of business activities in Dubai

Moody's improves JAFZA outlook

Last month, Jebel Ali Free Zone's (Jafza) outlook was changed by Moody's Investors Service from negative to developing for the Corporate Family Rating (CFR) and Probability of Default Rating (PDR). Moody's also confirmed on the B2 CFR and PDR in addition to the B2 rating for Jafza's November 2012 certificates which were issued by Jafza Sukuk Limited.

Changes in the outlook came in after the announcement of a consent solicitation inviting holders of the certificates of around Dh7.5 billion, which was for the purpose of adopting a resolution for amendments in the certificates' conditions which allows its redemption ahead of the November 2012 maturity and a trust dissolution coordinated with a financing package which is under negotiation.

The outlook change indicates Moody's view regarding Jafza taking positive steps in addressing its November 2012 sukuk maturity which could remove some rating constraints factored into the current B2, especially liquidity risk, if finalized.

Also taking into account, a statement in its 2011 financials that Jafza's going-concern status also depends on a facility mandate that has been signed with a group of banks to facilitate refinancing a considerable portion of the maturing sukuk alongwith the company's efforts to complement this facility with new Islamic trust certificates. After a strong operational performance along with a year when revenues having marginally dropped, Jafza's adjusted EBITDA margin in 2011 was around 80%. Nevertheless, execution risk continues in view of the timeliness of the transaction.

As per Moody's definition, Jafza is a government-related issuer. Jafza's final B2 rating combines a baseline credit assessment (BCA) of 16 (equivalent to B3 on the global rating scale) alongwith a one level uplift stemming from Moody's low exceptional support assumption from the government in the event the company were to face financial distress. Jafza's BCA depends on its strong business model, which in turn relies on a huge pool of rental contracts from diversified tenants showing high occupancy levels with minimal churn rates. Moody's is confident about Jafza ability to maintain the adjusted EBITDA margins well above 60% (79.7 per cent per end of 2011).

Al Braik Investments to build $173m facility at Kizad

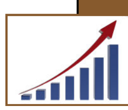
Kizad and Al Braik Investments have signed a Musataha agreement to establish region's first silicon metal smelter at the Kizad premises. The Musataha agreement is a long-term right agreement which gives companies the right to register at the Abu Dhabi Land Registry Department in the name of the investor. It has now paved the way for establishing the US$173 million smelter facility on an area of 316,413sqm.

The huge plot of land will be used by Al Braik to produce high grade silicon, commonly used in the aluminium industry as an alloying agent which greatly enhances the strength of wrought aluminium alloys. An integral part of the aluminium production process, Silicon metal will become more commonly used when the casting industries grow in the Gulf region.

With significant tonnages of silicon metal currently imported from various global producers, there is certainly a demand for a local producer.

Alongwith the comprehensive rail and road transport network, the close proximity of Khalifa Port will allow Al Braik Investments (L.L.C) to expand its market presence, thus allowing it to reach its markets with ease and efficiency. The project will bring together global participants across different parts of the industrial supply chain to serve the dual purpose of maximizing efficiency along with reduction in costs. Al Braik plans to begin construction in 2013 and aim to be operational by 2015.

Positive growth signs in Dubai's Ports Sector



On the eve of the 40th anniversary celebrations of Port Rashid, officials from DP World highlighted that leadership, vision, commitment and successful partnerships were the main contributing factors for the success of Dubai's port and marine terminal industry.

The Annual Gala Dinner was hosted by DP World, UAE Region for its stakeholders, partners and clients from the supply chain industry. The representatives from DP World also drew attention to the industry's role in aiding the economic development of the UAE, and emphasized their commitment to continue serving the nation as they have done before, ever since the establishment of Port Rashid in 1972.

The event was attended by more than 600 invitees that included top executives from shipping lines, traders, freight forwarding companies, and other supply chain operators, along with senior officials from Economic Zones World and Dubai Customs.

DP World has grown into the third largest global marine terminal operator due to its long lasting partnership with its customers and stakeholders. Over the decades, both its flagship, Jebel Ali Port and Port Rashid have served as reliable growth engines of the UAE's economy. In 2011, DP World, UAE Region delivered volume growth of 12% handling 13.0 million TEU (twenty-foot equivalent container unit).

Last year, DP World confirmed its two major expansions to add 5 million TEU capacity in Jebel Ali Port. It also unveiled plans to expand Dubai Cruise Terminal at Port Rashid to house and service more than five cruise ships at one time, and upgrade Al Hamriya Port to provide value-added services to its customers.

IN BRIEF

Gains of over $62bn for the UAE economy

UAE continues to maintain its position as the second largest economy in the Middle East after Saudi Arabia as high oil prices and production have boosted the country's economy by more than $62 billion in 2011. According to a report by the Institute for International Finance, the country's nominal GDP, which had earlier contracted by around $44 billion in 2009 due to lower crude prices resulting from the 2008 global fiscal distress, has rebounded by about $30bn in 2011 before surging by nearly $62.6bn.

The GDP which was around $300.1bn in 2010 soared to $362.7bn last year. It is forecasted to gain pace to reach $384.7bn in 2012 and further increase to an all-time high of around $389.1bn in 2013. According to the report, the surge was a result of the sudden rise in the hydrocarbon sector from $102bn in 2010 to around $156.7bn in 2011.

Factors such as higher prices and output enhanced the country's total exports from $229.4bn in 2010 to $289.7bn in 2011. Also, oil and gas exports jumped to $130.7bn from 85.8bn. Despite an increase in the country's imports from $170bn in 2010 to $213bn last year, the current account surplus rose from $18bn in 2010 to around $37.6bn in 2011. The report illustrated that higher current account boosted the UAE's official reserves from $32bn to $36bn along with an increase in the assets of its sovereign wealth funds from $462bn to $520bn and it is further projected to hit an all-time high of $578bn this year before reaching $630bn in 2013.

UAE's outstanding public debt is $252.9 billion (Dh928.64 billion) which is more than 70% of the country's gross domestic product (GDP). Of the total debts, Dubai Government and its government-related entities (GREs) owe $129 billion whilst Abu Dhabi Government and its GREs owe $108.3 billion. Approximately $32.2 billion of the total debt is expected to mature by the end of this year.

A further $28.7 billion will mature in 2013; with the remaining $182.3 billion expected to mature in the following years to come. Abu Dhabi's total public debts are less than 50% of its GDP whereas Dubai's public debt (Government's borrowings and GREs' total debts combines) stands at more than 92% of its GDP.

UAE Gross public & publicly held debt

(In Billion of US$)

Maturing in	2012	2013	Beyond	Total
Govt of Abu Dhabi	1.4	0.5	7.1	9.1
Abu Dhabi GREs	15.8	18.3	65.1	99.2
Total Abu Dhabi	17.2	18.8	72.2	108.3
In % of Abu Dhabi 2011 GDP	7.8	8.5	32.8	49.1
Govt of Dubai	0.6	4.5	47.9	53.1
Dubai GREs	14	4.9	57	76
Total Dubai	14.6	9.4	104.9	129
In % of Dubai & NE 2011 GDP	10.5	6.8	75.1	92.4
Other Emirate Sovereign	0	0	3.2	3.2
Other Emirate GREs	0.3	0.4	1.9	2.6
Total Other Emirates	0.3	0.4	5.1	5.8
Federal Government				9.8
In % of UAE 2011 GDP				2.7
Total UAE	32.2	28.7	182.3	252.9
In % of UAE GDP	8.9	8	50.6	70.2
Memorandum Items				
Total GRE debt including government guarantees				184.8
In % of 2011 UAE GDP				51.3

(Source: Gulf News)

According to the IMF, better growth prospects and plans to consolidate public finances has improved Dubai's government debt sustainability. The baseline scenario projects a stable growth recovery in the medium term. A measured consolidation of Dubai government's fiscal accounts aims to bring the fiscal accounts close to balance by 2014.

Under this scenario, the debt-to-GDP ratio is on a gradual declining path. Also, any pending GREs issues are addressed by the government. The Dubai World debt restructuring has been completed with various other troubled GREs in the process of restructuring. However, despite the increased size of debts, economists are positive that with considerable sovereign wealth fund assets, UAE is in a strong fiscal position.

Jurisdiction - Hong Kong

Hong Kong is one of the freest economies in the world. It is one of the world's most dynamic economies driven by the principles of free enterprise, free trade and free markets open to all. Over the last couple of decades, the strong economy has contributed to the GDP growth at an average annual rate of 5%.

It is also an attractive place to do business and this is reflected by the ongoing inflow of foreign direct investment alongwith the ever- growing number of foreign-owned regional headquarters and offices. Factors such as a sound banking system, robust legal system, sizable foreign exchange reserves and a strict anti-corruption regimen serve to strengthen Hong Kong's position as a business friendly region. There are absolutely no restrictions on inward and outward investments, no foreign exchange controls and no foreign ownership restrictions. As a result, funds can be easily moved into and out of Hong Kong.

Hong Kong has one of the lowest tax rates in the world. Hong Kong corporate tax rate for 2012 is 16.5%. The principal direct taxes are profits tax, salaries tax and property tax. There is no capital gains tax. The interest income received from bank deposits and dividends received from corporations are exempt from profits tax. Hong Kong holds an extremely favourable and competitive tax environment for business operations and is one of the best places in the region to develop business successfully.

INDUSTRY UPDATE

<u>Key Features of Hong Kong Companies are as follows</u>:

- A business setup in Hong Kong has all the powers of a natural person.
- Company incorporation in Hong Kong takes approximately two days from the submission of documentation
- Disclosure of Beneficial Ownership can be avoided by use of nominee
- A minimum number of one shareholder is required
- Corporate shareholders are permitted
- The shareholders can be of any nationality and be resident anywhere in the world
- Meetings can take place anywhere
- A minimum of one director is required
- The director can be of any nationality and be resident anywhere
- A company must appoint a company secretary
- Company must maintain a registered address in Hong Kong
- A company setup in Hong Kong is required to prepare audited accounts under the company laws

The government has implemented two tax reduction initiatives to boost Hong Kong's attractiveness as a company domicile and a competitive international business center.

A. Effective from 1 June 2012, the capital duty that is presently levied on Hong Kong companies will be abolished:

At present, a capital duty is payable to the Companies Registry. It is levied upon registration of a Hong Kong company and on the consequent increase in share capital or allotment of shares at a premium. The duty is charged at a rate of HK$1 per HK$1,000 of share capital, subject to a cap of HK$30,000.

With effect from 1 June 2012, the charge to capital duty will be abolished and thus Hong Kong companies will be permitted to register and raise their capital free from any government fees or taxes. This will allow greater flexibility along with increasing the ability to raise capital without paying any additional costs or charges to the tax authorities. These initiatives aim to encourage investors in establishing companies in Hong Kong and further expand their business activities.

B. Considerable reduction in the business registration fee (including levy) by up to HK$2,000

The business and branch registration ('BR') fees have been significantly cut down by upto HK$2,000 for a main BR and HK$73 for a branch BR. These reduced fees will be applicable on both new certificates and the renewal of existing certificates for the year 2012-13.

To foster the growth of SMEs, a number of business support programs and financial incentives have been established. Various organizations such as the Hong Kong Trade Development Council not only assist international companies in doing business in the Mainland and Asia, but also help Hong Kong companies in finding new markets.

The Hong Kong Productivity Council encourages increased productivity and implementation of more efficient methods throughout Hong Kong's business sectors. The Support and Consultation Centre for SMEs is an extensive information and advisory centre for SMEs. Financial assistance is also available through a number of Government Funding Schemes.

UAE Free Zone - SAIF Zone

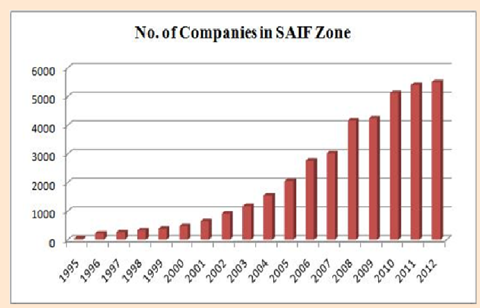
SAIF-Zone

Situated in the heart of UAE, Sharjah contributes to more than 40% of the country's industrial GDP. Its strategic location along with the unique integration of land, sea and air links, offers utmost logistical, warehousing and distribution advantages. It is the only emirate with seaports on the Arabian Gulf and the Indian Ocean. Over the years, Sharjah has witnessed growth rates of more than 50%, thereby carving a niche for itself in the sea-air traffic sector.

Sharjah's industrial policy and its success largely depend on speed, reliability and cost-effectiveness. With continued urbanization and advanced improvement of current facilities, there has been a tremendous growth in demand in all sectors. A stable government, solid industrial base, proactive policies and an attractive incentives package attracts a significant amount of foreign investments. Also, the demand for commercial, residential and industrial land keeps increasing with each passing year.

Some of the advantages of doing business in Sharjah include availability of cheap labour and excellent infrastructure services among other incentives, privileges and facilities provided to any ordinary investor. The Sharjah Ports and Free Zones offer absolute freedom in matters of transactions besides repatriation of capital and gains. The Sharjah Chamber of Commerce plays an important part in promoting business in the emirate such as offering technical advice, helping fledging businesses overcome barriers, conducting feasibility studies, and widen to their potential.

Sharjah Airport International Free Zone (SAIF-Zone) has played an important part in helping Sharjah's economy. It is the fastest growing airport free zone in the region with the international airport achieving a desirable reputation as the leading cargo hub. It is operated under



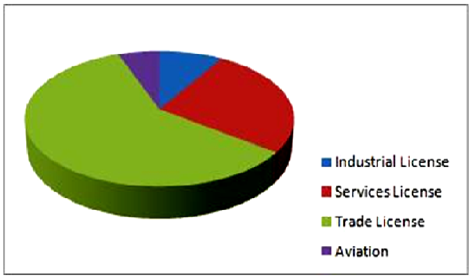
the patronage of the Sharjah Economic Development Department. The collaboration between the Free Trade Zones, the ports and the international airport along with related bodies have ensured an enviable industrial foundation for Sharjah which has an annual growth rate of 12%.

SAIF-Zone is located at the crossroads of major trading routes linking the East with the West. It is built close to the Sharjah International Airport and is easily accessible to seaports on the Indian Ocean (Port Khor Fakkan) and the Arabian Gulf (Port Khalid). It is a trading hub that offers superior sea, land and air transport links with access to over two billion consumers

LEGAL VIEWPOINT

across the GCC, the CIS, Asian sub-continent, parts of Africa, the Mediterranean and Europe.

SAIF-Zone which became fully operational in 1995 with 55 companies currently has more than 5500 companies. It covers a wide cross-section including some of the biggest companies in the fields of manufacturing, trading, IT services, media, and consumer durables amongst others.



SAIF-Zone attracts more than 451 companies engaged in industrial activities with around 1,359 companies in SAIF Zone engaged mainly in trade.

Key features of SAIF Zone companies are:

- 100% foreign ownership
- No corporate or personal taxes
- No import/export duties
- Free transfer of funds & a stable currency
- 25 years lease extendable to a similar period.
- License issued in 24 to 48 hours
- A 24-hour hotline for equipment and provision of labour in cargo operations
- Global and regional communication facilities with excellent sea, land and air transport links
- Access to ports in the Arabian Gulf and the Indian Ocean

SAIF-Zone boasts of modern facilities such as pre-built warehouses in different sizes, fully furnished and air conditioned Executive Offices (office space), temporary storage capability, container parking area, land on lease for unrestricted development, etc. It also provides businesses with unmatched logistical advantage apart from savings in time and costly insurance

BVI to make improvements to Companies Legislation

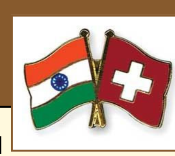
The British Virgin Islands (BVI) government has carried out the first stage of implementing amendments to the Business Companies Act which will be introduced later this year. The BVI Business Companies (Amendment) Act 2012 was recently scheduled for a first reading by the House of Assembly. The Business Companies Regulations, 2012, has also been published in the BVI's Official Gazette. However, the Act and the Regulations are not yet effective under BVI law as it still remains subject to a number of readings and reviews.

Areas that will be affected by the revised Act and Regulations are as follows:

- Listed companies
- Voluntary liquidations and voluntary liquidators;
- Involuntary dissolution and striking off of a company;
- The mechanics of security registration;
- The passing of directors written resolutions; and,
- The choice of company names.

The proposed changes will further help to enhance BVI's leading position as an international corporate jurisdiction.

India and Switzerland to share tax information more easily



India and Switzerland have reached a consensus on adopting a more liberal interpretation of the identity rules under the Double Taxation Avoidance Agreement. This will further facilitate the Indian tax authorities to get substantial information on individuals who are illegally stashing their wealth in Swiss bank accounts.

Earlier, as part of the identity requirements, it was mandatory for the authorities to provide the name of the person and agency which had the information. However, according to the Finance Ministry of India, Switzerland has now agreed to provide details even if the name is not provided other identification details are made available.

The agreement is beneficial to India since it gives liberal interpretation to the identity requirements for exchange of information which is in line with international standards. The conditions will enable India to obtain information even in case limited details about the individual having bank accounts in Switzerland are provided. Even though the protocol was signed on April 20 this year, the provision will be effective from April 2011, when the original pact was signed.

NRO, NRE and FCNR term deposits

In order to prevent a possible further fall in the rupee, the Reserve Bank of India (RBI) has been implementing various measures to attract dollars into the country. In December 2011, the interest rates on Non Resident Ordinary (NRO) savings accounts and Non Resident External (NRE) term deposits

were deregulated by the central bank. In addition to it, last month, the RBI also freed up interest rates on the Foreign Currency Non Resident (FCNR) Account which resulted in sharp increase in interest rates on all these accounts.

According to the RBI data, FCNR balances have always lagged behind NRE account balances. In Feb 2012, the FCNR balance was at $15.54 billion, while the balance in NRE accounts was $29.94 billion. In the NRE account, an NRI can keep a savings and a term deposit account whereas in the FCNR account, only a term deposit can be maintained.

NRI SCAN

Besides, the NRE accounts are rupee accounts, thereby making it operationally convenient for investors to choose the NRE term deposit. Also, not many investors are aware of the FCNR deposit as previously, the interest rates were barely around 1%. However, in recent times, due to the volatility between the Indian Rupee and the Dollar coupled with deregulated interest rates, FCNR deposits might offer a currency hedge to its investors.

The RBI has made repatriation fairly liberal. While NRIs can freely repatriate NRE and FCNR balances, NRO account balances are repatriable up to US $1 million per financial year.

Interest on the NRO account is taxable and for NRIs, tax is deducted at source at 30%. If there is a Double Taxation Avoidance Agreement (DTAA) between India and other countries, this TDS rate is lower. For example, the DTAA between India and the UAE, TDS rate of 12.50% on interest from deposits in India is applicable. These deposits may also be taxed in the country of their residence. However since UAE does not have taxes, this will not be taxed in UAE.

Interest on the NRE account and FCNR account are tax free in India. However, certain countries like the US that impose tax on global income of its residents and citizens will tax this income. As a result, the NRI would need to add this interest to his total income in the US tax return and pay taxes thereafter. The NRE account and FCNR account is the best choice for NRIs in the tax free Gulf region.

NRI deposits reach $58 billion

Taking advantage of a weakening rupee and higher interest rates, non-resident Indians (NRIs) transferred a total of $11 billion into bank deposits back in India during 2011-12, an amount which is three times more than in the previous year. In 2010-11, NRI deposits were around $3.23 billion.

According to Reserve Bank of India (RBI) data, the non–resident (external) rupee account had the highest accretion at $7.46 billion, against an outflow of $280 million in 2010-11. According to bank executives, there was a huge sum of deposits in NRE accounts after banks raised rates in the second half of FY12.

RBI had brought up the maximum limit on these deposits in an effort to attract foreign fund flows at a time when the rupee was increasingly losing its value against other currencies. Banks in India offer higher interest rates in comparison to those being offered in developed countries and also the Persian Gulf. The NRIs have certainly benefitted from the interest rate arbitrage. A gain from a weak

rupee even after factoring in the foreign exchange risk also influenced the flows.

However, the movement for foreign currency non-resident bank (FCNR-B) deposits was different. NRIs withdrew a net $431million from FCNR-B deposits in FY12, compared to the net inflow of $1.33 billion in 201-11. According to a Kerala based private bankers, NRIs have begun moving part of the FCNR-B deposits into NRE accounts.

For deposits with maturity of one year to less than three years, RBI raised the ceiling cap from 125 basis points (bps) to 200 bps above the corresponding Libor/swap rates. For deposits having three to five years of maturity, the ceiling was raised from 125 bps to 300 bps.

The change was driven mainly by the need to increase the amount of stable foreign money in the country. Majority of the response to these rate revisions is expected from NRIs who are the retail customers of the bank. State Bank of India's NRI deposit base is about $11 bn. At the end of March, NRI deposits in the country's banking system were $57.91 billion, up from $51.68 billion last year.

On a lighter note!

Politics Defined

SOCIALISM: You have two cows. The state takes one and gives it to someone else.
COMMUNISM: You have two cows. The State takes both of them and gives you the milk.
FASCISM: You have two cows. The State takes both of them and sells you the milk.
MILITARY DICTATORSHIP: You have two cows. The State takes both of them and shoots you.
BUREAUCRACY: You have two cows. The state takes both of them, accidentally kills one and spills the milk in the sewer.
CAPITALISM: You have two cows. You sell one and buy a bull.
PURE DEMOCRACY: You have two cows. Your neighbours decide who gets the milk.

REPRESENTATIVE DEMOCRACY: You have two cows. Your neighbours pick someone to decide who gets the milk.

AMERICAN DEMOCRACY: The government promises to give you two cows if you vote for it. After the election, the president is impeached for speculating in cow futures.

ANARCHY: You have two cows. Either you sell the milk at a fair price or your neighbours kill you and take the cows.

Words of Wisdom

Innovation is the specific instrument of entrepreneurship. The act that endows resources with a new capacity to create wealth.

- Peter Drucker

People excel and learn, not because they are told to, but because they want to.

- Peter Senge

Global Business Services (GBS), an associate of Kothari Auditors & Accountants, was established to offer company incorporation services in various onshore and offshore jurisdiction around the world.

GBS is dedicated to provide advisory on corporate formation, legal structuring, double tax avoidance treaties and assistance for formation of companies in various jurisdiction.

GBS has associated with various service providers across major jurisdiction worldwide and endeavors to provide every solution in identifying the right destination suitable to clients needs and to present expert insights & assistance with respect to setting up a business entity.

Our team of professionals include experts in the international business structuring, tax consultants, finance & law.

Kothari Auditors and Accountants is a professionally managed accounting, auditing, management and financial consulting firm established in October 1992.

The firm is registered with the UAE Ministry of Economy & Commerce having offices in Dubai and Sharjah.

The firm excels in offering accounting, audit services that include: statutory, internal and management audit and a host of consultancy services. It offers professional guidance that leverages formalities needed to set up businesses in the industrial, trade or services sector either offshore, local, or in any of the free zones in the UAE.

The fact that the firm in enlisted on the panel of approved auditors of many local and international banks as well as free zones authorities in the UAE has made Kothari Auditors and Accountants a reputed audit firm in the UAE.

OUR SERVICES:

- Company Formation (Offshore & Onshore) in UAE
- Company formation in major offshore jurisdictions
- Company Management and Administration
- Corporate Structuring and Re-Structuring
- Branch Registration of Foreign Corporations
- Establishments of Trusts and Foundations
- Trusteeship and provision of Foundation Councils
- Corporate Tax Planning
- Accounting

OUR SERVICES:

- Audit
- Accounting
- System Designing & Implementation
- Computerization of Systems
- Management Consultancy
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- Valuation of Business
- Guidance on UAE Commercial Laws

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