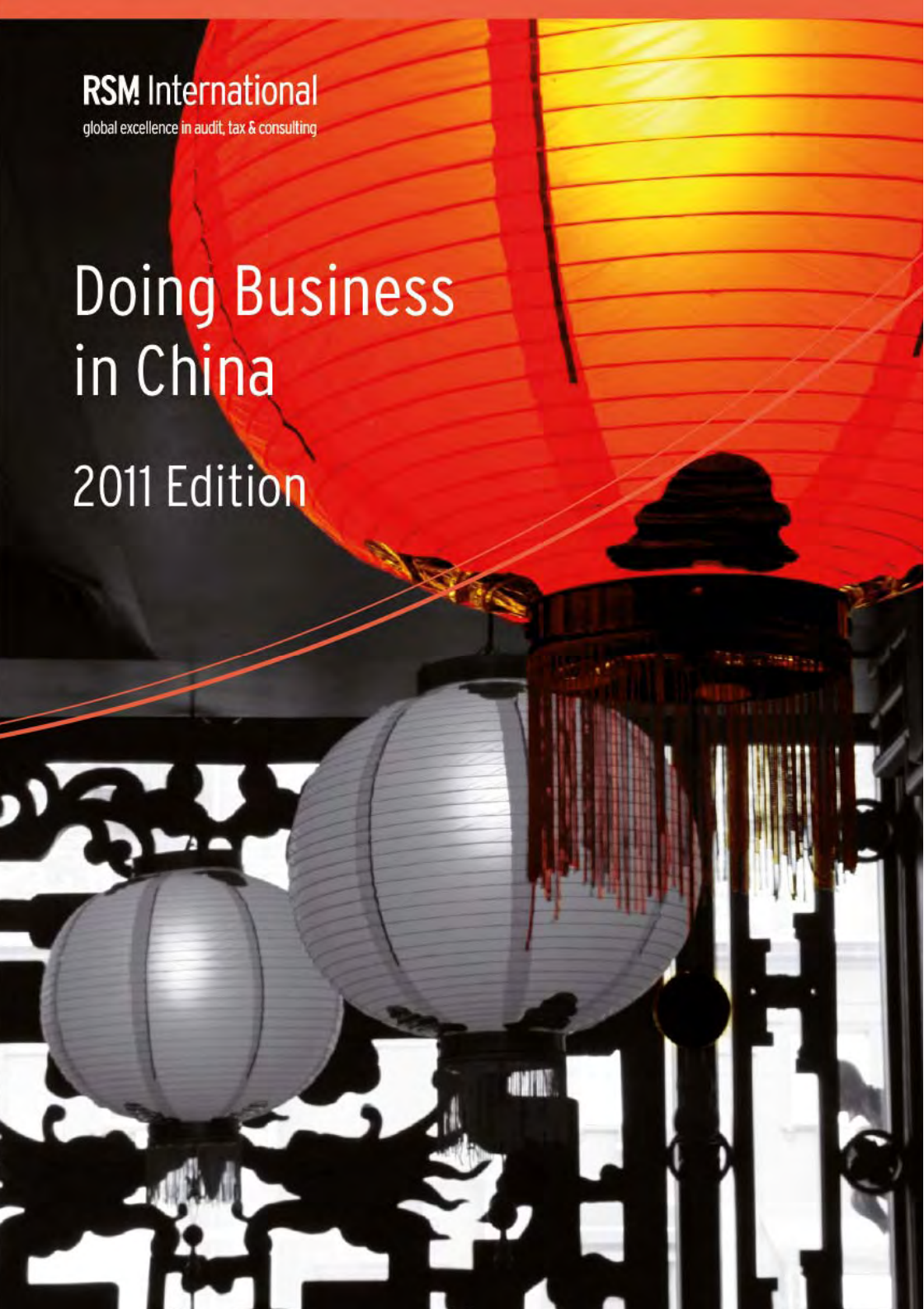


RSM International

global excellence in audit, tax & consulting

Doing Business in China

2011 Edition



Foreword

As the world's economies become more integrated, China has evolved as one of the dominant countries for business and investment. As the sixth largest network of independent accounting and consulting firms in the world, RSM International is committed to meeting the demands of clients in the global economy. Through RSM member firms, you will be connected with the accounting, tax, financial management, audit and business consulting skills of over 32,000 professionals in 80 countries and over 700 offices.

The RSM International China Practice Group is dedicated to helping internationally active businesses achieve their objectives in China. Our China Practice Group professionals are bilingual in English and Mandarin and are conversant in accounting and investment regulations in China as well as International Financial Reporting Standards. They bring with them in-depth knowledge and understanding of business customs, tax and regulatory matters.

This publication provides you with a broad overview of issues relevant to undertaking business activities in China. It covers basics from the type of business entities in China and employment policies, to more technical aspects such as taxation, accounting and auditing. It also covers the possibility that foreign investors may consider Singapore and Hong Kong as a base for investing in China.

As well as helping foreign businesses take the first steps, members firms within the RSM network can provide ongoing advice on all aspects of business, including the corporate governance arrangements needed to satisfy not only local regulations, but also global corporate needs.

RSM International is a network of dynamic member firms. Working together, we look forward to using our experience and expertise for the benefit of your businesses.

Jean Stephens

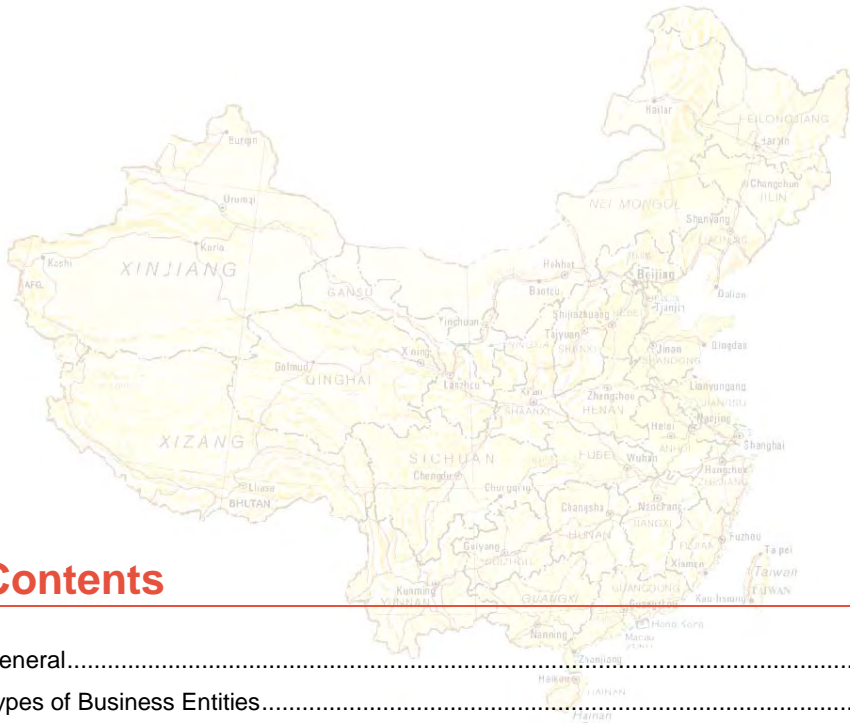
CEO

RSM International



**In a world of
different cultures,
it is good to have
advisors who are
consistent
everywhere**

RSM International is the sixth largest network of independent accounting and consulting firms worldwide. RSM International is represented in over 80 countries and brings together the talents of 32,000 individuals. RSM member firms are driven by a common vision of providing high quality professional services to ambitious and growing organisations.



Contents

General.....	1
Types of Business Entities.....	3
Foreign Exchange Controls	19
Taxation	22
Employment.....	65
Accounting.....	73
Intellectual Property Rights (IPR)	80
Asset Valuation.....	84
Hong Kong – indirect investment in China.....	87
Singapore - indirect investment in China.....	94
Listing in China, Hong Kong and Singapore.....	100
Relevant Websites.....	106
About RSM International	108
About RSM China CPAs.....	109
About RSM Nelson Wheeler.....	111
About RSM Chio Lim LLP.....	113

General

With an area of 9.6 million square kilometres and a population of more than 1.3 billion, China is one of the biggest countries in the world. Blessed with beautiful landscapes, 56 ethnic groups and the oldest continuous civilisation known to mankind, China has long been one of the world's favourite travel destinations.

The climate in China is very diverse, subarctic in its northern border and tropical in the south. North China typically has four distinct seasons – bitter cold winter, blazing hot summer, and short spring and autumn. In the south, in cities like Kunming, Guangzhou and Shenzhen, spring-like weather prevails all year round with temperatures usually ranging between 15°C and 30°C.

East China and west China vary in terms of terrain. The majority of the landscape in west China comprises plateaus, mountains and deserts while in the east, plains, deltas and hills dominate, making the land suitable for cultivation.

Among China's 56 ethnic groups, the Han people make up about 92% of the country's total population. Over 50 languages are used throughout China, for example, Han, Tibetan, Uighur, and Korean. The Han people use many dialects in different parts of China, such as Cantonese, Shanghainese, Hokkien etc, apart from Mandarin, which is China's official language.

Economy

With the opening of special economic zones since 1978, China has transformed the sluggish mainland planned economy system into a lively socialist market economy system. China has maintained strong and steady growth over recent years. With its gross domestic product (GDP) growing at an annual rate of 8.7% in 2009 to US\$ 4.9 trillion, China has become the third largest economy in the world and is expected to rank second in 2010. Meanwhile, China has successfully maintained a low inflation rate, its 2009 consumer price index (CPI) reduced 0.7% compared with 2008. China is opening her arms not only to tourists, but also international entrepreneurs. Over 40 million foreigners enter China every year for leisure, business, or to attend conferences. Among the world's 500 largest multinational enterprises, 486 have operations in China. By 2009, over 600,000 foreign-invested enterprises (FIEs) had established operations in China. Foreign Direct Investment (FDI) exceeded US\$ 90 billion in 2009. Imports and exports decreased by 14% to US\$ 2.21 trillion compared with 2008. Trade surplus for 2009 decreased by 34% to US\$ 196.1 billion mainly due to strengthening domestic consumption and slow recovery of international markets from the global financial crisis.

Like many other Asian countries, China's foreign reserves have exceeded their optimum level in recent years. According to the State Administration of Foreign Exchange, China has over US\$ 2.27 trillion of foreign reserves, surpassing Japan to become the country with the highest foreign reserves in the world. In July 2005, China decided to peg its currency, the Renminbi (¥) or Yuan, to a variety of currencies instead of linking it exclusively to the US dollar. Since that time, the Renminbi has appreciated against the US dollar by over 20%.

Administration

China is divided into 23 provinces, five autonomous regions, five municipalities directly under the Central Government, and two special administrative regions. The National People's Congress is the highest organ of state power in China. The central and highest organ of State administration is the State Council. The State Council exercises unified leadership over the local state administrative organs at various levels throughout the country.

Since liberalising its economy in 1978, China has undergone five large-scale government administration reforms and has announced its sixth reform guideline. This includes a cabinet reshuffle plan in the First Session of the 11th National People's Congress held in March 2008. These reforms seek to build a more efficient government, dismantle bureaucratic barriers and develop an effective socialist market economy.

The Communist Party is the sole party in power in China. A multi-party cooperation and political consultation system is adopted under the leadership of the Communist Party.

Types of Business Entities

China's Company Law recognises two types of companies.

Limited Liability Company

This type of entity requires a minimum capital of ¥ 30,000 with less than 200 shareholders.¹ The capital may be in the form of cash or assets, including industrial property, plant and equipment, and land use rights.

Company Limited by Shares

This type of entity is to be set up by promotion or share offer with a minimum share capital of ¥ 5 million. For incorporation, no less than two promoters are required. Establishment by share offer is subject to the approval of China's securities regulator.²

Foreign Investment Entities

Foreign investors are allowed to establish the following types of entities:

Cooperative Joint Venture (CJV)

A CJV has the option to register as a legal person with limited liability. The parties in a CJV have the flexibility of choosing whether to operate the enterprise as a limited liability company or to operate it as an unincorporated entity under which partners bear unlimited liability. The profits of a CJV are allowed to be shared by participants as specified in the joint venture contract, and not necessarily in proportion to their capital contribution. As a result, this type of venture is ideal when the foreign investor is only looking for a short-term project. After obtaining a fair or premium return on/of investment, the foreign investor returns the majority or full ownership of the enterprise to the Chinese partner.

- A cooperative venture does not require a new business licence if it is arranged in contractual form under the auspices of an existing joint venture enterprise.
- There are no expiry periods or limitations on the length of the venture. The contractual terms can be renewed at any time and for any extended period, subject to the approval of the government.
- Investment contributions from each party are not limited to financial capital but may also include non-financial assets such as intellectual property rights, buildings, materials or machinery.
- Transfer or withdrawal of investments is not subject to the approval of the government. Foreign investors can deploy their registered capital as they see fit.

¹ ¥ 30,000 is the minimum capital for a domestic company. For requirements on foreign investment limited liability company, please refer to "Capital Contribution" section.

² ¥ 5 million is the minimum capital for a domestic company. For requirements on foreign investment company limited by shares, please see "Capital Contribution" section.

Equity Joint Venture (EJV)

An EJV is the most common and preferred method of doing business in China. It is a limited liability company and is required to be registered as a legal person. The main feature is that the joint venture parties take responsibility for losses and profits according to the ratio of their equity stake.

- The minimum level of foreign participation in an EJV is 25% of the registered capital in general. The registered capital is not limited to financial capital but may also encompass non-financial assets such as intellectual property rights, buildings, materials, or machinery if approved by the government.
- Where an EJV with less than 25% of capital contributed by foreign investor(s) is approved and registered, the business licence will indicate “foreign investment ratio below 25%” after the entry in the “Enterprise type” column. In such a case, the foreign investor is required to contribute all the investments within three months after obtaining the business licence if the investment is in the form of cash, or six months if the investment is in kind or industrial properties. Meanwhile, such an EJV cannot, when importing equipment or articles for its own use, enjoy tax reduction treatment and the treatment for foreign-funded enterprises in respect of other taxes.
- Equity cannot be transferred or withdrawn under any scenario without the approval of the government.
- There are registered capital/total investment ratio requirements that need to be fulfilled depending on the investment size of the venture. Please refer to the section on Capital Contribution for details.

Wholly Foreign-Owned Enterprise (WFOE)

A WFOE is a 100% wholly foreign-owned subsidiary doing business in China. The foreign company has sole responsibility for its profits and losses. It is required to register as a legal person who is restricted to certain businesses. The enterprise is able to implement strategies that effectively conform to the interests of the parent company abroad. Moreover, technology and know-how are given better protection.

One effective use of a WFOE is to replace the foreign enterprise representative office (RO). Whereas foreign enterprises previously involved in a joint venture would establish ROs in China to manage the administrative aspects of the venture, some have resorted to setting up WFOEs to handle the same responsibilities.

- The term varies according to the nature of the enterprise; any extension is subject to the approval of the relevant government authority.
- There is a minimum capital contribution required, known as registered capital, which varies according to the business.
- A WFOE is allowed to acquire land use rights in the form of land use rights certificates.

- The establishment of export-oriented or high-tech WOFEs is encouraged.

Effective 11 December 2004, all foreign investors are able to establish WOFEs in commercial sectors, hence the term Foreign Invested Commercial Enterprise (FICE). The development has affected the following types of business activities in China:

- Commission agency
- Wholesaling
- Retailing
- Franchise

A wholesale FICE may carry out wholesaling, commission agency, import and export, and other auxiliary activities. FICEs may directly establish and operate new stores, and authorise others to open franchise stores.

The development has reduced the minimum registered capital previously required, lifted the geographical limitations and also simplified the approval procedures. There are, however, certain restrictions on the products and business activities related to China's commitments as a member of the World Trade Organisation.

Company Limited by Shares with Foreign Investment (CLSFI)

A CLSFI generally adopts the promotional method for its establishment, while share is also permitted.

A CLSFI set up by means of promotion shall have no fewer than two but no more than 200 initiators, of whom half or more shall have a domicile in China. At least one of the promoters has to be a foreign shareholder.

An EJV, CJV or WOFE may apply to convert to a CLSFI through a share flotation. Other than the requirements in the preceding paragraph, a CLSFI established by a share flotation will need to have a track record of being profitable in the three consecutive years prior to the offer.

The minimum registered capital is ¥ 30 million. The minimum level of foreign participation in a CLSFI is 25%. A CLSFI can be listed either locally or abroad.

Build-Operate-Transfer Project (BOT)

BOT projects provide enterprises with concessions to key industrial or infrastructure projects in China, such as bridges, railways, industrial parks, power plants, airports, subways and expressways. After financing and building the project, the enterprise either immediately transfers the project to another party or continues to operate it for a number of years. When the agreed-upon equitable return on investment is achieved, the enterprise is required to transfer full ownership and control to the government. The terms, limitations, rules and regulations pertaining to BOT projects are often established on an ad-hoc basis.

- The enterprise undertaking the project must take the form of a limited liability company.
- The registered capital should be at least 25% of the project's total investment.
- The projects are usually established through conditional franchise agreements which cannot exceed 30 years.

Holding Company

The number of approved holding companies in China is increasing. A holding company is an umbrella-structure arrangement which enables a foreign company to hold together its joint venture and WOFE investments in China. A holding company can be either an EJV or a WOFE. Generally, the government allows a foreign company to set up a wholly foreign-owned holding company in China if it has a good reputation, financial strength, high technology, and the projects it undertakes are in line with the state policies on industrial sectors.

- The total assets of the foreign company should be more than US\$400 million and its capital contribution in China should exceed US\$10 million, or the foreign company must have set up at least 10 FIEs in China with an aggregate capital contribution of more than US\$30 million.
- The registered capital of a holding company in China should not be less than US\$30 million.
- A holding company has the right to import and sell products, and provide maintenance services.

Foreign-invested Partnership

Since 1 June 2007 it has been technically possible to establish a foreign invested partnership under the "Partnership Enterprise Law" ("PEL"). Practically, however, it was not until the Administrative Measures for the Establishment of Partnership Enterprises by Foreign Entities or Individuals in China came into effect on 1 March 2010 that it has become a more readily accessible investment vehicle for foreign investment.

A foreign invested partnership may have a number of foreign investors (either corporate or natural persons) and potentially Chinese investors.

The state encourages foreign enterprises or individuals with advanced technology and management experience to establish partnerships to promote the development of the related industries in the domestic market.

Article 2 of PEL states that for the purposes of this Law, "partnerships" refer to both general partnerships and limited liability partnerships.

A general partnership is composed of general partners who bear unlimited joint and several liability for the debts of the partnership. Where there are special provisions in this Law on the forms of liability borne by general partners, those provisions shall prevail. A professional entity that provides paid services to its clients with specialised knowledge and skills may form a specialised general partnership.

A limited liability partnership is composed of general partners and limited partners, with the former bearing unlimited joint and several liability for the debts of the partnership and the latter bearing liability for such debts respectively within the limits of the capital contribution for which they have subscribed.

A general partner may make capital contributions in cash or in kind, or in the form of intellectual property rights, land-use right or other property rights, or labour services. A limited partner shall not make capital contributions in the form of labour services.

Article 3 of PEL states that a wholly State-owned company, a State-owned enterprise, a listed company, or a public welfare undertaking or public organisation shall not become a general partner.

Representative Office (RO)

Before actually investing in China, many foreign investors choose to establish representative offices (ROs) to engage in market research and to learn more about the country. An RO is optional before making an actual investment in China and is not an independent legal entity. It must confine its activities to promotion or acting as a liaison office on behalf of its head office. An RO is not allowed to generate revenue, solicit business, engage in warehousing or sign contracts with customers. It can hire local staff through approved employment agencies. It should engage in activities that service the head office directly.

Incorporation of Business Entities

Approval and Registration Procedure

The approval of a foreign investment enterprise (FIE) in China depends on the nature of the proposed project. In 2007, the National Development and Reform Commission and Ministry of Commerce in China released the updated “Catalogue for the Guidance of Foreign Investment Industries” circular, which took effect on 1 December 2007. Under the Catalogue, foreign investment projects come under four categories:

- Encouraged Projects
- Restricted Projects
- Prohibited Projects
- Permitted Projects

Investment projects that do not fall under the first three categories would be regarded as permitted projects. Different policies will apply to different categories of projects. Generally, it would be easier to set up an FIE within the Encouraged Projects or Permitted Projects category and the FIE could enjoy more preferential treatment from the business and tax perspectives. Otherwise, there could be restrictions on the form of investment (e.g. requirements on the amount of investment coming from the Chinese party) for some of the restricted projects.

The Ministry of Commerce (MOFCOM) has overall responsibility for approving the formation of FIEs and for issuing approval certificates. The local MOFCOM authorities generally undertake the examination and approval procedures. Under normal circumstances, the following documents should be submitted to support the application: Project Proposal, Letter of Intent, Feasibility Study Report, Articles of Association, Joint Venture Contract etc. However, the list of documents required for submission may vary depending on the location and the type of operation.

After obtaining the approval certificate from the MOFCOM, the FIE has one month to register with the State Administration for Industry and Commerce (SAIC) in the relevant location to obtain a business licence. Within 30 days of the issuance of the business licence, the FIE must register with the local tax authorities.

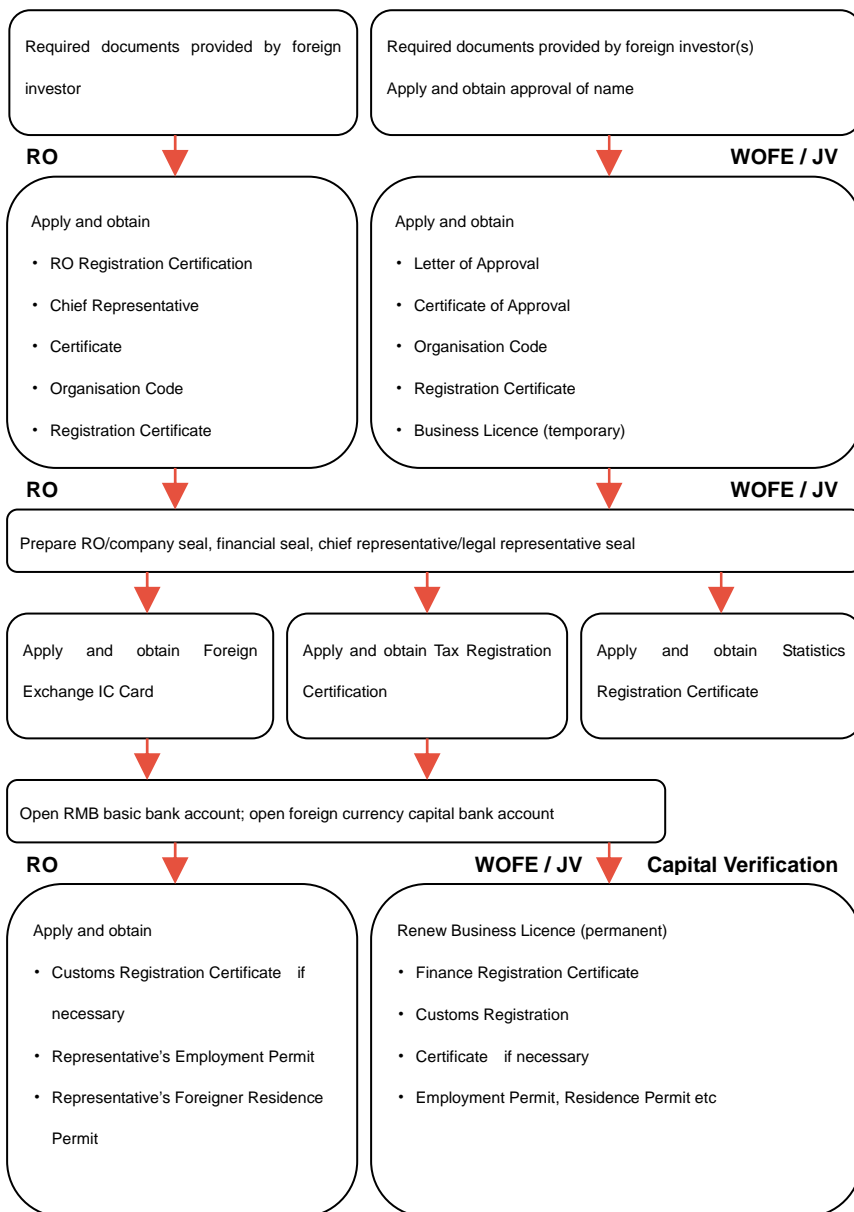
Other authorities that the FIE would need to seek approval from include the Organisation Code Bureau, the Foreign Exchange Supervision Bureau, the Finance Bureau, the Statistics Bureau and the Customs Bureau.

A Comparison of Main Investment Vehicles

WFOE	EJV	CJV	RO
Advantages			
<ul style="list-style-type: none"> Foreign investor has full equity control and management 	<ul style="list-style-type: none"> Chinese partner may provide land, building, equipment as well as existing customers Make use of Chinese partner's licences which are not open to WOFEs Profits and risks sharing are clearly shared in proportion to the equity of each partner 	<ul style="list-style-type: none"> Chinese partner may provide land, building, equipment as well as existing customers Make use of Chinese partner's licences which are not open to WOFEs Flexible arrangement on form of cooperation, profit / responsibility sharing etc. according to its Joint Venture Contract Foreign investor is allowed to recover its capital investment upon certain agreement 	<ul style="list-style-type: none"> Quickest way to set up Lower risk with initial market testing
Disadvantages			
<ul style="list-style-type: none"> Cannot set up WFOE in specific industries 	<ul style="list-style-type: none"> Foreign partner can only contribute up to 49% of registered capital in specific industries Does not have full equity control and management 		<ul style="list-style-type: none"> Cannot engage in direct business activities or enter into contracts Must engage local agent to hire local staff
Equity Holding			
<ul style="list-style-type: none"> Foreign investor(s) contribute 100% of registered capital 	<ul style="list-style-type: none"> At least one foreign investor and one Chinese investor. Foreign investor contributes at least 25% of registered capital 		<ul style="list-style-type: none"> Not applicable
Governance			
<ul style="list-style-type: none"> One Managing Director or Board of Directors (BOD) of at least three directors A Supervisor or Supervisory Board shall also be appointed 	<ul style="list-style-type: none"> BOD of at least three directors A Supervisor or Supervisory Board shall also be appointed 	<ul style="list-style-type: none"> BOD of at least three directors or Joint Management Committee A Supervisor or Supervisory Board shall also be appointed 	<ul style="list-style-type: none"> Chief Representative
Tax			
<ul style="list-style-type: none"> Exposed to: company income tax, value-added tax, business tax, individual income tax Enjoy tax incentives like "Reduced tax rate for qualified Advanced and New Technology Enterprise" Double Tax Treaty applies 			<ul style="list-style-type: none"> Taxation on expenses on a deemed income basis, mainly on company income tax, business tax and individual income tax (for details, please refer to page 43)
Reporting and Compliance			
<ul style="list-style-type: none"> Monthly Report, Quarterly Report, Annual Audit and Annual Inspection 			<ul style="list-style-type: none"> Monthly Report, Quarterly Report and Annual Audit
Lead time to establishment			
<ul style="list-style-type: none"> 3 - 4 months (upon submission of required documents) FICE likely to take a month longer 	<ul style="list-style-type: none"> 3 months (upon submission of required documents) 		<ul style="list-style-type: none"> 2 - 3 months (upon submission of required documents)

Establishment procedures

This is a simplified version for reference purposes only.



Capital Contribution

The Chinese Government believes that regulating foreign investment is very important for economic and social order. A minimum registered capital and capital contribution scheme is used to ensure proper foreign investment goals and regulate investment behaviour. The registered capital of an FIE refers to the capital registered at the State Administration for Industry and Commerce (SAIC) for establishment of the FIE, catering to the FIE's initial operational needs. The foreign investor must actually inject capital and it is very difficult for FIEs to reduce their registered capital during the operating period under existing regulations.

According to the amended Company Law of the People's Republic of China, which came into force as of 1 January 2006, the minimum amount of registered capital of a limited liability company shall be ¥ 30,000. The minimum amount of registered capital of a one-person limited liability company shall be ¥ 100,000. The minimum amount of the registered capital of a joint stock limited company shall be ¥ 5 million.

It is possible for different cities in China to have different registered capital requirements, especially for those in some of the Special Economic Zones. Foreign investors are allowed to contribute registered capital in cash, in kind or in the form of technology/intellectual property (IP) subject to approval from the relevant authority. Certain technology or IP, if approved by the relevant government agencies in China, depending on what it relates to, can be used as part of the registered capital for injection into invested companies. The technology/intellectual property portion of the capital injection may not exceed 70% of the total registered capital.

Many foreign investors take the registered capital as the total amount that they will invest in China. However, another related concept, "total investment", should be considered before incorporation. Both registered capital (RC) and total investment (TI) of an FIE need to be stated in its Articles of Association. The upper limit for loan financing (from bank / holding company) is restricted to the difference between TI and RC, while also being subject to the following guidelines for the debt-equity ratio.

TI	Minimum RC Requirement According to the TI
Less than US\$ 3 million	70% of the TI
US\$ 3-10 million	The higher of 50% of the TI or US\$ 2.1 million
US\$ 10-30 million	The higher of 40% of the TI or US\$ 5 million
US\$ 30 million or higher	The higher of 1/3 of the TI or US\$ 12 million

The required timing of contribution of the RC is defined relative to the Business Licence date. For newly established FIEs, where a multi-stage payment is agreed, the first contribution should not be less than 15% of RC and should be paid up within three months. Where a company becomes an FIE as a result of a takeover, the takeover payment should normally be made within three months. An acquirer may apply for approval to make staged takeover payments. Where such approval is granted, at least 60% should be paid within six months and the remainder should be paid within one year.

The amount of the initial capital contributions made by all shareholders shall be not less than 20% (or 15% for FIEs) of the registered capital, nor less than the statutory minimum amount of registered capital. The remainder shall be contributed by the shareholders within two years from the date of the business licence, except for investment companies for which the investors have five years from the date of business licence to contribute registered capital in full.

Capital contribution must be verified by a CPA in order to renew the Business Licence. An FIE is only permitted to repatriate profits once RC has been fully contributed and only then after tax clearance has been obtained. Where FIEs are established with insufficient RC or TI, the capital increase process can take a few months to obtain the necessary approvals. Foreign investors should therefore consider carefully the expected operational funding requirement before determining the level of TI and professional advice is advisable in this regard.

Audit Requirements

All Foreign Investment Enterprises must appoint a China-registered Certified Public Accountant (CPA) firm to audit their financial statements at the end of the accounting year and to issue an auditor's report. Audits are required under the company laws, accounting regulations and income tax laws in China. Audited financial statements are also used for tax reporting purposes. In March 2010, the Beijing State Tax Bureau issued JingGuoShuiZhiFa [2010] No.57 to clarify that from 2009, annual Corporate Income Tax filings of Non-resident entity (Foreign enterprise Representative Offices) must be verified by a Certified Tax Agent (CTA) instead of CPA firm. But a CPA report may still be applicable for tax filing purpose for other provincial tax bureaux. The annual financial statements should be submitted together with an auditors' report issued by a CPA registered in China within four months of the end of the fiscal year. (However, local authorities may impose earlier deadlines in certain cases.)

The independent Chinese auditor appointed by a foreign investment company should be qualified and registered with the Chinese Institute of Certified Public Accountants to practise in China.

Annual Combined Inspection

FIEs in China are required to undergo the annual combined inspection conducted by six Government Bureaux, including the Finance Bureau, Customs, Local Tax Authority, State Administration of Foreign Exchange, Foreign Economic and Trading Department and State Administration for Industry and Commerce.

FIEs are required to make annual statutory filings between 1 March and 30 June following the end of a calendar year. Financial filings are due by the end of April; Tax filings and update of the Business Licence should be completed by the end of May; and Foreign Exchange filings should be completed by the end of June.

The general procedures for the annual statutory filings are as follows:

- (a) Normally the seven Government Bureaux will form a special team whose responsibility is to organise, arrange and coordinate the work relating to the annual statutory filing for FIEs. In some provinces, a combined office may be established to deal with the annual statutory filing issues. One of the seven Government Bureaux may be appointed to collect all the required documents if there is no combined office.
- (b) The announcement for the annual statutory filing will be published in newspapers or and over the public internet, communicating the basic requirements, time and location for the annual statutory filing exercise and contact number.
- (c) FIEs have to collect the annual statutory filing report from the local State Administration for Industry and Commerce. The report has to be completed accurately and thoroughly according to the audited financial statements.
- (d) FIEs should submit the completed annual statutory filing report together with all the required documents to the combined office before 30 April, while different deadlines may be determined locally.
- (e) The statutory filing fee of ¥ 50 (which may be subject to changes annually) has to be paid upon submission of the documents.
- (f) The State Administration for Industry and Commerce will return the Certificate of Operation to FIEs if all seven bureaux are satisfied with the documents submitted.

Dissolution and Liquidation

Limited Liability Company/Company Limited by Shares

A company can be liquidated upon:

- (a) Meeting the liquidation conditions in its Memorandum and Articles of Association
- (b) Approval by its shareholders
- (c) Merger or acquisition by another company

When the company is placed in liquidation, a liquidation committee is to be formed within 15 days. If the company is a limited liability company, the liquidation committee is to be formed by its shareholders. For a company limited by shares, the members of the liquidation committee have to be approved at the shareholders' meeting.

In the event that no liquidation committee is formed, creditors of the company can apply to the Court to enforce the formation of the committee.

The liquidation committee is required to:

- Prepare a statement of assets and liabilities
- Notify creditors
- Continue the company's businesses and operations, but only to the extent that this relates to the liquidation
- Obtain tax clearance
- Dispose of all assets and settle all liabilities
- Distribute surplus assets to shareholders after settling all liabilities
- Represent the company to sue or to be sued

When the liquidation committee prepares the statement of assets and liabilities, and if it is found that the company has insufficient assets to settle all its liabilities, the committee should apply to the Court for a declaration of bankruptcy.

When a bankruptcy declaration is made, the liquidation committee should hand over the liquidation affairs to the Court.

Representative Office/Branch Office

When a foreign enterprise applies to revoke its representative office due to the expiry of the residence period or to terminate its business operations before the expiry, the following steps have to be followed (based on Detailed Rules of the Ministry of Foreign Trade and Economic Co-operation for the Implementation of the Examination-Approval and Administration of the Resident Representative Offices of Foreign Enterprises in China - Promulgated on 13 February 1995):

- Submit an application (30 days before expiry) for cancellation, to be signed by the chairman of the board of directors or general manager of the enterprise via the original undertaking agency to the original examination and approval authorities.
- Settle all outstanding liabilities
- Obtain tax clearance from the tax authorities
- Notify the State Administration for Industry and Commerce
- Notify Customs
- Notify all other relevant authorities (e.g. the Foreign Exchange Supervision Bureau, the Public Security Bureau)

Cooperative Joint Venture (CJV)

A joint venture agreement should state the expiry of the joint venture or the procedures to terminate the joint venture. A CJV can be terminated under the following circumstances:

- (a) Expiry of the agreement
- (b) Inability of the venture to continue its business
- (c) Failure of the joint venture parties to perform their contractual obligations under the CJV agreement, such that the joint venture is unable to continue operating
- (d) The joint venture meeting the termination clauses as stated in the CJV agreement
- (e) Termination by the authorities as a result of a breach of Chinese laws

When the CJV is terminated on condition b or d, the board of directors has to submit an application to the original examination and approval authorities for termination.

If the CJV is terminated as a result of one joint venture party failing to perform its contractual obligations (condition c), the other joint venture party has the right to claim for losses and damages against the non-performing party. The performing party can also apply to the original examination and approval authorities to terminate the CJV.

If the CJV is registered as a legal entity, a liquidation committee should be formed upon termination to administer liquidation of the CJV. On the other hand, if the CJV is registered as a non-legal entity, the Code of Civil Procedures should be used when dealing with the CJV's liquidation affairs.

Equity Joint Venture (EJV)

The joint venture agreement should state the expiry of the joint venture or the procedures to terminate it. An EJV can be terminated under the following circumstances:

- (a) Expiry of the agreement
- (b) Inability to continue its business
- (c) Failure of the joint venture parties to perform their contractual obligations under the equity joint venture agreement, such that the joint venture is unable to continue

- (d) Inability to continue resulting from natural disasters, wars, etc.
- (e) Failure to achieve the objective of the EJV
- (f) The joint venture meeting the termination clauses as stated in the agreement

When the EJV is terminated on condition b, d, e or f, the board of directors has to submit an application to the original examination and approval authorities for the termination.

If the EJV is terminated as a result of one joint venture party failing to perform its contractual obligations (condition c), the non-performing party is responsible for the losses and damages suffered by the joint venture.

Upon termination, a Liquidation Committee will be formed to administer liquidation matters.

Wholly Foreign-Owned Enterprise (WOFE)

A WOFE can be terminated if one of the following conditions is met:

- (a) Expiry of the agreement
- (b) Decision by the foreign shareholder to dissolve or liquidate when the WOFE is unable to continue its business
- (c) Inability to continue resulting from natural disasters, wars, etc.
- (d) Bankruptcy
- (e) Operating against public interest and Chinese laws
- (f) The WOFE meeting the conditions stated in the Articles of Association of the WOFE

Based on Section 72 of the Detailed Rules of the Wholly Foreign-Owned Enterprise Act, application for termination can be submitted to the examination and approval authorities when the above condition b, c or d is met. The approval date by the examination and approval authorities shall be the Date of Termination.

Based on Section 76 of the same Act, if the termination application is based on any of conditions a, b, c or f, a notice (the "Termination Notice") has to be issued within 15 days from the Date of Termination to notify creditors. Another 15 days after the Termination Notice, the WOFE has to table a liquidation proposal and nominate candidates to form a liquidation committee to administer the liquidation.

The Enterprise Bankruptcy Law

The Standing Committee of the National People's Congress has issued a new Enterprise Bankruptcy Law ("the EBL") to replace the previous Bankruptcy Law. The EBL became effective on 1 June 2007.

The EBL builds on the previous law that had been promulgated in 1986 in light of both international and domestic experience with the objective of ensuring a clearer legal basis for formal bankruptcy proceedings than in the past.

The EBL is applicable to corporate legal persons (whether state- or privately- owned) that are insolvent or at risk of becoming insolvent. It also extends to the debtors' overseas assets. Natural persons are excluded from the scope of the EBL.

The EBL defines the priority of claims on a bankrupt's assets as follows:

- 1) Secured claims
- 2) Costs and expenses of the bankruptcy administration
- 3) Employees' salaries, workman's compensation, superannuation, etc
- 4) Social insurance and taxes
- 5) Other unsecured claims

If the bankrupt company has no assets to be realised for distribution, the administrator shall apply to the Court to conclude the bankruptcy administration.

The introduction of the EBL demonstrates China's intention to bring its insolvency framework in line with international practices. It also provides a defined mechanism to foreign investors to deal with their investments under distressed situations. However, due to the lack of experienced practitioners and acceptance of the insolvency framework by the general public in China, the success of the EBL remains to be seen.



Terracota Warriors

Foreign Exchange Controls

Overview of Foreign Exchange Controls

China's official currency, the Renminbi (¥), is issued and managed by the People's Bank of China. The exchange rates between ¥ and major foreign currencies (i.e. USD, EUR, HKD, JPY and GBP) are formulated by the People's Bank of China which has authorised the China Foreign Exchange Trading Centre to announce these rates at 9:15 am every working day.

The State Administration of Foreign Exchange (SAFE) exercises the functions and powers of exchange control. It achieves its targets mainly through a foreign exchange registration system and account categorisation system. A Foreign Investment Enterprise (FIE) should, within 30 days after obtaining the business licence, proceed with foreign exchange registration. This involves getting a Foreign Exchange Registration Certificate for overseas-invested businesses and a foreign exchange account identity card.

Control over Foreign Exchange Accounts

Under current rules, an FIE must open a current account and a capital account with a designated foreign exchange bank for its foreign currency transactions after going through the foreign exchange registration procedures. An FIE may also be required to open separate ¥ capital, current, and tax settlement account for ¥ transactions such as capital injection by investors, daily business payments and receipts and payment of taxes.

Foreign Currency Current Account

A foreign currency current account deals with daily recurring transactions in the ordinary course of business. It involves international receipts and payments including trading receipts and payments, service receipts, payments and unilateral transfers such as payments of royalties, repatriation of after-tax profits and dividends, remittances of after-tax wages and other income of foreign employees, and payment of interest on foreign debts.

Based on Circular No. 49 issued on 13 August 2007, which took immediate effect, an FIE is allowed to retain its foreign exchange income in its current account according to its operational needs.

Foreign Currency Capital Account

A foreign currency capital account deals with imports and exports of capital, direct investments, and loans and securities investments such as repayment of principal on foreign debts, overseas investments, investment in FIEs and remittances by FIEs after liquidation of capital denominated in foreign currency. Foreign exchange transactions in the capital account require the SAFE's registration or approval.

Remittance of Funds out of China

Remittance of Dividends and Profits

The Chinese Government permits the free convertibility of foreign exchange relating to current account items, which include the payment of dividends from after-tax profits. Under the law, transfers of after-tax profits or dividends of foreign investors in FIEs may be made from current accounts. Payments must be effected at designated foreign exchange banks and supported by tax payment/exemption certificates issued by the relevant tax authorities and written resolutions by the board of directors regarding the profit distribution.

Foreign Exchange Loans, Remittances of Interest and Principal

An FIE has to register with the SAFE in order to secure a foreign exchange loan e.g. from the parent company. The registration procedures call for the FIE to set up a foreign exchange loan account and obtain a foreign exchange loan certificate.

Payments of interest on foreign loans made by FIEs are permitted. Regarded as one of the current account items, interest on foreign loans may be repaid through a special foreign exchange loan account. An FIE should open the account through designated foreign exchange banks.

However, repayments of principal are considered a capital account item, and prior approval from the SAFE must be obtained before a remittance is made. The Chinese enterprise must submit its application together with a Foreign Exchange Loan Registration Certificate, the loan agreement and notice of repayment of principal issued by the foreign creditor to the SAFE for approval. Upon receiving the SAFE's approval, the Chinese enterprise may repay its principal either from its capital account or effect a conversion and payment at a designated foreign exchange bank.

Repatriation of Capital

Repatriation of capital in foreign currency is considered a capital account item and is allowed if proper capital reduction has been approved by the Ministry of Commerce or when the liquidation procedures have been completed.

Non-trade settlement in foreign currency

Non-trade payments cover transportation, travel, telecommunications, construction & installation and related services, insurance, financial services, computer and information services, intellectual property rights and franchise fees, sports/cultural and entertainment services, other commercial services, government agency services, etc.

Effective 1 May 2005, an FIE is required to submit the following documents to a designated foreign exchange bank (the bank where the remitting FIE has opened and maintained a foreign currency bank account) for non-trade settlement in foreign currency not exceeding US\$50,000:

- Original agreement

- Original invoice issued by the foreign party
- Tax payment / exemption certificates issued by the relevant tax authorities

For payments over US\$50,000, a review by and consent from the local Administration of Foreign Exchange is required. Effective 1 April 2008, an FIE in certain pilot regions in China (e.g. Tianjin, Shanghai, Jiangsu, Sichuan, Fujian and Hunan) which makes non-trade payments exceeding US\$50,000 is only required to pre-register with the local tax authority. For those non-trade settlements not exceeding US\$50,000, no registration with local tax authorities is required.

Special Purpose Offshore Companies

In January 2005, the SAFE issued a rule requiring Chinese enterprises to seek its approval before transferring their assets to a foreign holding company as they prepare for overseas listings. The aim was to stop Chinese nationals from reaping huge gains while avoiding Chinese taxes. The rule made it difficult for a Chinese enterprise to undergo restructuring for an initial public offering (IPO).

On 21 Oct 2005, Notice No. 75 was issued listing the guidelines for Chinese legal entities and individuals intending to set up special purpose offshore companies to raise funds (e.g. through an IPO). The new rules allow a Chinese enterprise to transfer its assets to a foreign holding company (that is, a Special Purpose Offshore Company) as it prepares for an overseas listing by simply notifying the SAFE rather than having to obtain its approval. But there is a new requirement that any funds raised will have to be remitted to China within 180 days, whether it is money raised from an IPO or a sale of assets to a venture capitalist or a private equity fund.

Taxation

Overview of China Tax

This section of the booklet is designed to provide introductory information only. It is by no means comprehensive, as the tax regulations and practices in China are constantly changing. The information is deemed to current up to and including 31 March 2010.

Before China adopted the open door policy for foreign investors, the tax laws were primarily designed for local enterprises. After opening up the Chinese economy, the government introduced specific income tax regulations for foreign enterprises in the 1980s, which included an array of tax incentives to encourage foreign investment. It has, however, been widely expected that the tax systems for domestic and foreign invested enterprises would be harmonised. On 16 March 2007 the National People's Congress passed the new Corporate Income Tax (CIT) Law, under which the standard rate of CIT for both domestic and foreign enterprises was revised to 25% with effect from 1 January 2008. Tax incentives are now industry-focused, rather than regional-focused. Enterprises enjoying reduced tax rates under the old regulations have been given a five-year transitional period to converge gradually to the new 25% rate. The Detailed Implementation Rules were promulgated on 6 December 2007.

China Tax Regulations

The National People's Congress is the supreme legislative organ that approves and promulgates the tax laws. The State Council is responsible for formulating tax regulations. The Ministry of Finance will issue circulars and various administrative documents which are binding on enterprises. The State Administration of Taxation (SAT) is the department administering all tax matters in China. The provinces, central administered municipalities and certain large cities are authorised to promulgate local tax regulations that are within their jurisdiction and affect only their regions. However, these must not contravene the main tax regulations of the State. The Customs Office is also involved in the administration of customs duty, import value added tax and import consumption tax.

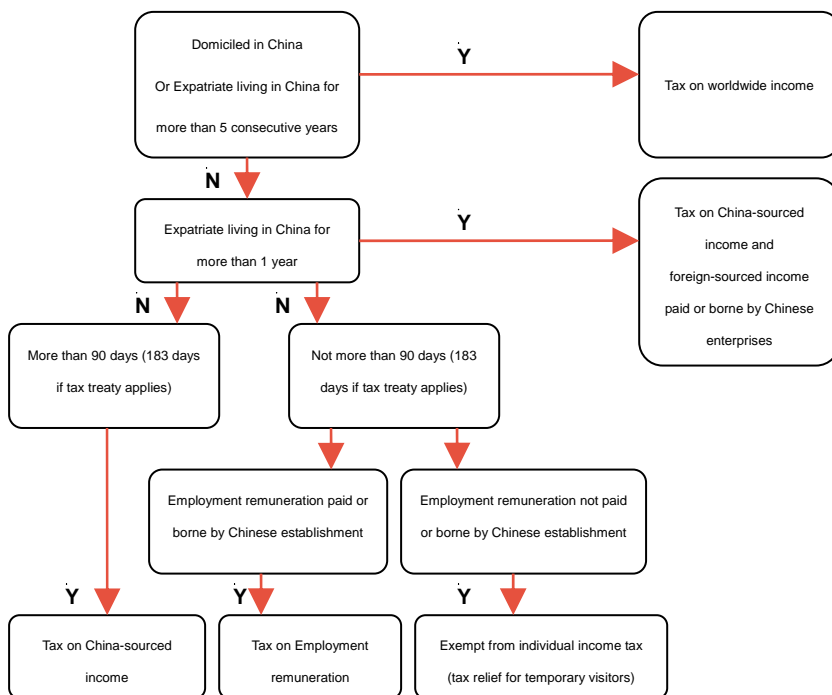
The accounting books, vouchers and statements must be maintained in the Chinese language and may concurrently be kept in a foreign language. The enterprises may use either a foreign currency or Renminbi (¥) for the preparation of accounting books, but tax calculations may only be performed using Renminbi.

Types of Taxes

Personal Tax (Chinese nationals and foreigners)

Income tax is imposed on individuals under the Individual Income Tax Laws of China. To determine whether an individual is liable for tax in China, the following factors are considered:

- Whether the individual is domiciled in China
- What is the duration of the individual's stay in China
- Where is the source of the individual's income



¹Figure1 - Tax liability of individuals

¹ Some local tax authorities take the view that expatriates are not entitled to the tax relief for temporary visitors. Therefore, it is advisable to check with the relevant tax authorities on this issue.

Exception: The tax relief for temporary visitors is not applicable to representatives of representative offices and foreign enterprises carrying out projects that constitute a PE in China.

Tax Registration

Expatriates who are liable to pay individual income tax are required to register with the tax authorities within 30 days of the individual triggering the taxable event.

What is to be included in employment income?

- Wages
- Salaries
- Bonuses
- Year-end bonuses
- Dividends
- Allowances
- Subsidies
- Stock options
- Long service awards
- Severance payments
- Personal taxes paid by employers on behalf of employees

The following fringe benefits received by expatriates are exempt from individual income tax:

- Housing, meal and laundry allowances received in a non-cash form or on a reimbursement basis
- Reimbursement of relocation expenses upon commencement or cessation of China assignment
- Per diem
- Home leave allowance - two trips per calendar year
- Allowances for language training and children's education
- Mandatory social security benefits

Chief Representative and Representative of Representative Office

If the expatriate is acting as the Chief Representative or Representative, his/her individual income tax liabilities may be computed on a "time apportionment" basis according to the number of days spent in China.

Tax Credit

Tax credit will be allowed on the amount of income tax paid by the individual outside China, for the income derived by the individual outside China. However, the credit amount shall not exceed the amount of the individual's China income tax payable on the foreign-sourced income. The excess tax credit (after setting off the individual's China income tax payable for that year) can be carried forward for a maximum period of five years.

Assessment and Administration

The tax year starts on 1 January and ends on 31 December.

Individual income tax is assessed on a monthly basis. All individuals are allowed a monthly deduction of ¥ 2,000 with effect from 1 March 2008. Expatriates are given an additional monthly deduction of ¥ 2,800 with effect from 1 March 2008. The taxable income, after the monthly deduction, will be taxed on a progressive basis at a rate of 5% to 45%.

Tax payable = [Monthly income - Allowable deductions] x Applicable tax rate - Quick calculation deduction

The employer is primarily responsible for withholding individual income tax from employees. The tax withheld shall be remitted to the State Treasury within seven days after the end of each month. Otherwise, penalties will be imposed.

In addition, individuals with annual income exceeding ¥ 120,000 are required to keep records of income from all sources and report to the local tax authority by 31 March every year.

Employment Income Tax Rates

Total Monthly Taxable Income	Tax Rate	Deduction for Quick Calculation
Up to ¥ 500	5%	¥ 0
¥ 501 - ¥ 2,000	10%	¥ 25
¥ 2,001 - ¥ 5,000	15%	¥ 125
¥ 5,001 - ¥ 20,000	20%	¥ 375
¥ 20,001 - ¥ 40,000	25%	¥ 1,375
¥ 40,001 - ¥ 60,000	30%	¥ 3,375
¥ 60,001 - ¥ 80,000	35%	¥ 6,375
¥ 80,001 - ¥ 100,000	40%	¥ 10,375
¥ 100,001 and above	45%	¥ 15,375

Corporate Tax

Corporate taxation in China comprises a few categories:

- Corporate Income Tax
- Turnover Tax (Business Tax, Value Added Tax and Consumption Tax)
- Customs Duty
- Miscellaneous Tax (Property and Behaviour Tax, and Resource Tax)

Corporate Income Tax

Enterprises with/without establishments in China deriving income from production, business operations and other sources are subject to corporate income tax (CIT).

Type of Enterprise	Corporate Income Tax on:
Resident enterprises <ul style="list-style-type: none">• enterprises established in China in accordance with the laws and regulations of China; or• enterprises incorporated outside China but control and management² is in China	Worldwide income
Non-resident enterprise <ul style="list-style-type: none">• enterprises incorporated outside China and the place of effective management is not in China but has an establishment or place of business in China	China-sourced income
<ul style="list-style-type: none">• enterprises incorporated outside China, the place of effective management is not in China and no establishment or place of business in China but derives income from sources within China	China-sourced income on a withholding tax basis

Tax Registration

Enterprises are required to register with the local tax authorities within 30 days from the date of obtaining the business licence or business registration certificate.

A non-resident enterprise that has contracting projects or provides service within the territory of China shall perform tax registration with the tax authorities where the project is located within 30 days from the date of concluding the project/service contract.

Tax Calculation

Tax liability = [Total revenue - Non-taxable revenue - Tax-exempt revenue - Costs - Expenses³ - Losses⁴] x Applicable tax rate - Allowable reductions/exemptions - Tax credit

² Refers to substantive management and control over the business operations, personnel, financial functions, properties, etc of an enterprise.

³ Not all expenses are deductible. Please refer to the Deductibility of Expenses section for more details.

⁴ Losses can be carried forward for 5 years.

Applicable Tax Rates

Normal CIT rate: 25%⁵

Withholding tax rate: 10%⁶ on gains from disposal of properties, dividend, interest, rental, royalties and other China-sourced income.

Tax Credit

Tax credit will be allowed on the amount of income tax actually paid (in accordance with the foreign tax laws) by the enterprise outside China, for the income derived by the enterprise outside China. However, the credit amount should not exceed the amount of China income tax payable on the foreign-sourced income. Any excess tax credit can be carried forward for a maximum period of five years.

Assessment and Administration

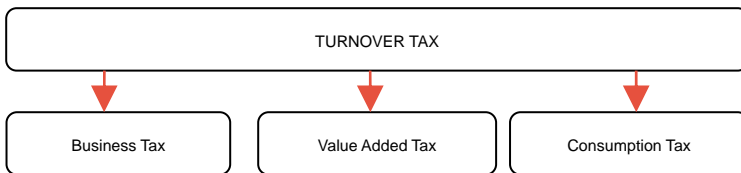
The tax year starts on 1 January and ends on 31 December.

All enterprises are required to submit provisional tax returns and advance tax payments on a monthly/quarterly basis (to be determined by the tax authorities) in Renminbi, within 15 days after the end of the month/quarter. An annual CIT return should be filed together with its financial and accounting reports and other relevant information (e.g. related party transactions annual return) within five months from the end of each tax year regardless of whether the enterprise is in a profit or a loss position. Any deficiency shall be paid within five months from the end of each tax year and any excess payment shall be refunded.

Enterprises in a group are not allowed to pay CIT on a consolidated basis, unless approved by the State Council.

Turnover Tax

Turnover tax comprises business tax; value added tax and consumption tax, each of which is explained in detail below.



⁵ The CIT may be reduced. For example, small-scale enterprises are taxed at 20% and Advanced and New Technology taxed at 15%.

⁶ The original withholding tax rate was 20%, but has been reduced to 10% by Article 91 of the Implementation Rules.

Business Tax

Business tax is imposed on the provision of services other than processing, repair and replacement services, including:

- Services where the provider or the recipient is located within China
- The transfer of intangible assets used within China
- The transfer of immovable properties within China

There are certain exemptions for specific industries (e.g. nursing, medical, educational and agricultural-related services), sole proprietors whose turnover fall below the taxable threshold, transfer of high technology, and transfer of intangibles. Prior approval from the tax authority must be obtained.

Tax Calculation and Rates

Business tax payable = (Turnover - Specific deductions⁷) x Applicable tax rate

Turnover = Full consideration + Other charges⁸

The tax rates for the respective items are as follows:

Taxable Item	Tax Rate
Transportation	3%
Construction	3%
Finance and insurance	5%
Post and telecommunications	3%
Culture and sports	3%
Entertainment	5% or 20%
Services	5%
Transfer of intangible assets	5%
Sale of immovable properties	5%

Activities Involving Both Taxable Labour Services and Sale of Goods

Where a sale involves both taxable labour services and sale of goods, it is deemed to be a mixed sales activity. How does one determine whether to pay business tax or value added tax?

If the entity is mainly engaged in the production, wholesale or retail of goods, it will be regarded as "sale of goods" and subject only to value added tax. Otherwise, it is subject to business tax.

⁷ Includes fees paid to sub-contracting agents, sub-contractors, marketable securities and futures for investment operations.

⁸ Includes handling fees, allowance, funds, fund-raising fees, refunded profit, bonus, liquidated damages, late charges, interest for delayed payment, penalty, receipts on behalf, payment on behalf and other charges of every nature received from other parties.

When a taxpayer is concurrently engaged in taxable labour services and goods or non-taxable labour services, separate accounts have to be kept for the amount of taxable labour services and the sale amount of the goods or non-taxable labour services. The taxable labour service is subject to business tax while the sale of goods is subject to value added tax.

However, if no separate accounts are kept or if the accounts are not properly kept, the tax authorities in charge of the taxpayer shall determine the respective turnovers for business tax and value added tax purposes.

Withholding Agents

The following are deemed to be withholding agents for the collection of business tax:

- Payers who make payments to overseas companies/person if no establishment or agent in China for the companies/person
- Ticket office for performance activities or individual performance agents
- First insurers for reinsurance business
- Transferee for intangible assets, other than land use rights, transferred by individuals
- Other persons as specified by the Ministry of Finance

Assessment and Administration

Taxpayer	Basis Period	Basis Period	Reporting and Payment Due Dates
Normal taxpayer	5 days 10 days or 15 days		Within 5 days following the end of the relevant period followed by a monthly tax return. Any discrepancy shall be settled within 15 days from the first day of the following month.
	1 month		Within 15 days after the end of the period.
	3 months		Within 15 days after the end of the period.
Finance industry (excluding pawnbrokers), Insurance Industry, Resident offices of foreign enterprises		3 months	Within 15 days after the end of the period.

Value Added Tax (VAT)

Value added tax is levied on all enterprises and individuals engaged in:

- The sale of goods⁹ within China
- The provision of processing, repair and replacement services within China
- The importation of goods into China

Deemed "Sale of Goods"

The following are deemed to be "sale of goods" even without consideration:

- Supplying goods to others on a consignment basis
- Consignment sales
- Transfer of goods from one establishment to another for sale by a taxpayer that maintains two or more establishments and adopts consolidated accounting except where these two establishments are located in the same country or city
- Use of self-produced or commission-processed goods for non-taxable/exempt items
- Use of self-produced or commission-processed goods for collective welfare or personal consumption
- Use of self-produced, commission-processed or purchased goods as investment
- Distribution of self-produced, commission-processed or purchased goods to investors
- Giving out of self-produced, commission-processed or purchased goods as free gifts

Exemptions from VAT

The following are exempted from VAT:

- Self-produced agricultural products sold by agricultural producer
- Contraceptive medicines and devices
- Antique books
- Importation of instruments and equipment directly used in scientific research
- Importation of materials and equipment from foreign governments and international organisations as assistance given free of charge
- Equipment and machinery imported under contract processing, contract assembly and compensation trade
- Articles imported directly by organisations for the disabled and for special use by the disabled
- Small businesses within the threshold stipulated

⁹ Goods refer to tangible moveable property, electricity, heat and gas.

Mixed Sales Activities

A single sales transaction that involves both provision of non-VAT taxable services and sale of tangible goods is referred to as “mixed sales”. Where the entity is engaged in the production, wholesale or retail of goods, VAT is payable and not business tax. Otherwise, business tax is payable and not VAT¹⁰.

Rates of VAT

Classification	Tax Rate
Exports	0%
Small-scale VAT taxpayers	3%
Sino-foreign oil and gas joint production	5%
Sale and import of: <ul style="list-style-type: none">• Food grains and edible vegetable oils• Tap water, heating, air conditioning, hot water, coal gas, liquefied petroleum gas, natural gas, methane gas and coal/charcoal products for household use• Books, newspapers and magazines• Feed, chemical fertilisers, agricultural chemicals, agricultural machinery and covering plastic film for agricultural purposes• Agricultural primary products• Audio visual products• Digital publications• Dimethylether (CH₃OCH₃)	13%
Sale of goods except goods subject to 13% VAT, sale of fixed assets purchased on or after 1 January 2009, processing, repair and replacement services and importation of goods	17%

VAT-exempt-credit-refund Mechanism

Exports are zero-rated and the relevant input VAT is refundable.

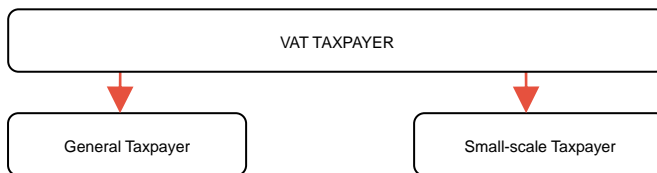
The tax authority has implemented the “exempt-credit-refund” mechanism for exported goods. This method applies only to production enterprises.

1. Exempt - production enterprises export self-produced goods which are exempted from VAT
2. Credit - input tax on the raw materials are offset against the VAT from domestic sales, with adjustments to non-creditable and non-exempted VAT
3. Refund - where there is excess input VAT in point 2 above, the excess may be refunded. Otherwise, the excess will be carried forward to offset against future VAT liabilities

¹⁰ More details are available under the Business Tax section above - Activities Involving Both Taxable Labour Services and Sale of Goods.

In recent years, the export VAT refunds for items mainly relating to high energy-consumption, high pollution and resource-intensive have been cancelled and VAT refund rates for items derived from labour-intensive or potentially over-heated industries has been adjusted from time to time in reaction to the changing export environment.

Types of VAT Taxpayers



General Taxpayers

General taxpayers are those whose taxable sales value exceeds the threshold of the small-scale taxpayers. Once a small-scale taxpayer is recognised as a general taxpayer, the small-scale taxpayer status no longer applies even if its sales fall below the threshold in the future. [Note: A general taxpayer status needs to be granted by the Tax Authority.]

Small-scale VAT Taxpayers

A small-scale VAT taxpayer is one that has an annual turnover which is below the threshold as indicated in the following table:

Activity the Taxpayer is Engaged in	Threshold (inclusive)
Production of goods or provision of taxable services	¥ 500 thousand
Principally in the production of goods or the provision of taxable services, and also engaged in the wholesaling or retailing of goods	¥ 500 thousand
Wholesaling or retailing of goods	¥ 800 thousand

VAT payable for small-scale taxpayer = Taxable sales x 3%

Software Developers

For ordinary VAT taxpayers engaged in the sale of self-developed and manufactured software products, VAT is levied at the general rate of 17%. However, if the effective VAT burden exceeds 3%, the excess VAT will be refunded immediately, so effectively, the VAT is only 3%. This treatment is effective from 24 June 2000 up to 31 December 2010.

VAT Calculation

VAT payable = Output VAT - Input VAT

If the input VAT is in excess of the output VAT, the balance will be carried forward to offset against future VAT liabilities.

Output VAT

Output VAT = Sales value (VAT exclusive) x Tax rate

Input VAT

Input VAT is the amount paid by the taxpayer for buying goods and taxable services supported by either special VAT invoices received from suppliers or VAT certificates issued by the Customs Office.

The following input VAT is not creditable against the output VAT:

- Purchase of fixed assets for construction of immovable properties
- Goods or taxable labour purchased for the activities which are subject to business tax
- Goods or taxable labour purchased for tax-exempt items
- Goods or taxable labour purchased for collective welfare or personal consumption
- Abnormal or extraordinary losses

Prior to 31 December 2008, in general input VAT of purchase of fixed assets was not creditable against the output VAT, with effect of Caishui [2008] No. 170 issued by the Ministry of Finance and the State Administration of Taxation on 19 December 2008, from 1 January 2009, input VAT incurred from purchase of fixed assets supported by valid vouchers may be credited against the taxpayer's output VAT.

When Does VAT Liability Arise?

Circumstances	Point where VAT Liability Arises
Direct sale of goods or taxable labour services	Date on which the proceeds are received or the documented evidence or right to collect the sales sum is obtained regardless of when the goods are delivered
Goods sold under entrusted collection	Date on which goods are delivered and the procedures for entrusted collection are completed
Goods sold on credit or by instalments	Date of settlement per contract
Goods sold with advance payment	Date on which the goods are delivered
Goods sold on consignment	Date on which the sales list or all or part of consignment sales is received from the consignee within 180 days, or 180 days after the goods are delivered
Provision of taxable services	Date on which the services are provided and the proceeds are received or the documented evidence of right to collect the sales sum is obtained
Deemed sales other than consignment sales	Date on which the goods are transferred
Import of goods	Date of import declaration

VAT Invoices

All VAT invoices must be printed and distributed by the tax authorities. Only VAT general taxpayers can obtain, buy and use special VAT invoices. General taxpayers must issue VAT invoices to purchasers, other than small-scale taxpayers, when VAT is to be levied.

All invoice-issuing individuals and enterprises shall establish an invoice usage registration system and report the status of the invoice usage to the tax authorities from time to time. All invoice stubs or invoice usage registration books shall be kept for at least five years. Records can only be destroyed after they are checked by the tax authorities.

Assessment and Administration

The basis period of a taxpayer is determined by the local tax authorities.

Basis Period	Filing and Payment Deadline
1 day	<ul style="list-style-type: none">• Provisional payment within 5 days of the end of the period; and• Final return and any discrepancy in the tax amount should be settled within 15 days in the following month.
3 days	
5 days	
10 days	
15 days	
1 month	Within 15 days after the end of the period
1 quarter	
Imports	
Within 15 days after tax payment certificate has been issued by the customs	
Exports	
Apply for a refund of the tax paid for the export of goods upon completion of the export procedures with customs on a monthly basis	

Consumption Tax

Consumption tax is levied on the manufacturing, processing and import of certain types of consumer goods. There are 14 categories of taxable consumer goods as follows:

Taxable Items	Tax Rate
Tobacco	36% - 56% plus ¥ 0.003 per piece in production process; 5% in wholesale process
Alcoholic drinks and alcohol	5% - 20% and/or plus ¥ 0.5 per gram and/or fixed sum per tonne
Cosmetics	30%
Precious jewellery, jade and stones	5% - 10%
Firecrackers and fireworks	15%
Oil products	
- Unleaded petrol	¥ 0.20 per litre
- Leaded petrol	¥ 0.28 per litre
- Diesel oil	¥ 0.10 per litre
- Solvent naphtha	¥ 0.20 per litre
- Naphtha*	¥ 0.20 per litre
- Lubricants	¥ 0.20 per litre
- Fuel oil	¥ 0.10 per litre
- Jet fuel	¥ 0.10 per litre
Motor vehicle tyres	3%
Motor cycles	3% - 10% (depending on cylinder capacity)
Motor cars	1% - 40% (depending on cylinder capacity)
Golf balls and golf accessories	10%
Luxury watches	20%
Yachts	10%
Disposable wooden chopsticks	5%
Wooden floor panels	5%

*Naphtha is temporarily exempted from consumption tax from 1 January 2008 to 31 December 2010.

Exemptions from Consumption Tax

The following items are exempted from consumption tax:

- Exported goods
- Goods used by manufacturer for further production of taxable goods
- Goods temporarily imported into China

- Other goods with consumption tax lower than ¥ 50, samples and goods for advertising with no commercial value, consumer goods donated by foreign government and international organisations, consumer goods that are lost before customs discharge and necessity goods that are carried on transportation vehicles

Assessment and Administration

The basis period of a taxpayer is determined by the local tax authorities.

Basis Period	Filing and Payment Deadline
<i>Manufacturing and processing</i>	
1 day	<ul style="list-style-type: none"> • Provisional payment within 5 days of the end of the period; and • Final return and any discrepancy in the tax amount should be settled within 15 days in the following month
3 days	
5 days	
10 days	
15 days	
1 month	Within 15 days after the end of the period
1 quarter	
<i>Importing</i>	
Within 15 days after tax payment certificate has been issued by the customs	

Customs Duty

Customs duties are levied on all imports, exports and articles permitted to enter or leave China unless they qualify for preferential tax treatment (see Reduction and Exemption section below).

Customs Valuation

Import customs duty is levied based on the Cost Insurance Freight (CIF) value. Export customs duty is calculated based on Free on Board (FOB) price of goods less export duty.

Reduction and Exemption

Customs duties will be reduced or exempted under the following circumstances:

Reduction or Exemption	Exemption
<ul style="list-style-type: none">• Goods damaged, destroyed or lost en route to the customs territory or at the time of unloading• Goods damaged, destroyed or lost due to force majeure after unloading but prior to release• Goods discovered already leaking, damaged or rotten at the time of the customs inspection, provided that the damage is proven to be other than improper storage• Commodities covered by concluded international treaties• Applicable to certain areas (bonded areas, economic development zones, etc.)• Imported goods with special usage (scientific research and educational purposes, for disabled persons, for designated enterprises applied with "Domestic Component Content" policy, etc.)• Commodities under certain special trade modes (processing trade, consignment sales, etc)	<ul style="list-style-type: none">• Consignment of goods where the estimated customs duties are less than ¥ 50• Advertising material and samples of no commercial value• Goods and materials which are rendered gratis by international organisations or foreign governments• Fuel, stores, beverages and provisions for use en route loaded on any means of transport, which is in transit across the frontier• Exported/imported goods which are shipped back into/out of the customs territory for justified reasons• Certain machinery and equipment imported for self-use purposes by Foreign Investment Enterprises under projects categorised as encouraged or restricted

Temporary Exemption

Customs may grant temporary exemption treatment to Temporary Import / Export Commodities. These commodities have to be reshipped out of or into the customs territory within six months. A guarantee letter or security deposit of an amount equivalent to the customs duties will have to be submitted to Customs.

Items which qualify for temporary exemption include trade samples, exhibits, engineering equipment, vehicles and vessels for construction, instruments and tools for installation, cinematographic and television apparatus, containers, theatrical costumes and paraphernalia.

Payment of Customs Duty

The payer or its agent shall make timely customs declaration and settle Customs Duty within 15 days after the date of the issuance of the Customs Duty payment certificate. Late payment penalties will be imposed at 0.05% daily on the overdue Customs Duty.

Property and Behaviour Taxes

The main purpose of levying property and behaviour taxes is to allocate wealth between the poor and the rich while at the same time, implement designated policies for China's economic growth.

Types of Property Tax:

- Real estate tax
- Deed tax
- Vehicle and vessel tax
- Land appreciation tax

Types of Behaviour Tax:

- Stamp duty
- Urban land use tax

Real Estate Tax

Property tax is levied on an annual basis and payable on an instalment basis. The local tax authorities will determine when the real estate taxes are payable.

An individual's residential real estate is currently exempted from real estate tax unless it is rented out.

Who Pays the Real Estate Tax?

Circumstances	Person Responsible for Payment
Where the real estate is being used by the owner	Owner
Where the real estate is mortgaged	Mortgagee
Where the owner or mortgagee does not use the real estate, or ownership of the real estate is not yet established	Custodian or user of real estate

Real Estate Tax Calculation

Annual real estate tax payable = Tax Basis x Tax rates

Circumstances	Tax Rates	Tax Basis
Enterprises using their own real estate	1.2%	70% to 90% of the original value of real estate
Enterprises/individuals renting out their real estate	12% or 4%*	Rental income
Individuals residing in their own real estate	0%	Not applicable

Notes: A reduced tax rate of 4% is applied to individuals renting out residential real estate

Deed Tax

Where land use rights or building ownership rights are transferred within China, the transferee enterprises or individuals have the obligation to pay deed tax. The transfer of land or building ownership rights refers to:

- The grant of State-owned land use rights
- The transfer of land use rights, including sale, gift or exchange
- Buying and selling of buildings
- A gift of buildings
- The exchange of buildings

Tax Rates

Deed tax is levied from 1% to 5%. The actual rates will be determined by the provincial or local governments.

Payment

The obligation of the transferee to pay deed tax arises on the date on which the contract for the ownership transfer of the land or building is signed or when the documents for the ownership transfer are obtained.

The transferee is required to file the deed tax return to the local tax authorities within 10 days from the date of the obligation to pay deed tax. The local tax authorities will set the time limit on when the tax must be paid. Any late payment will incur a penalty of 0.05% per day on the overdue amount.

Vehicle and Vessel Tax

Owners or manager of vehicles and vessels used within the territory of China are required to pay vehicle and vessel tax.

Tax is assessed on net tonnage of the vessel or vehicle, or on a per unit basis.

Assessment and Administration

Vehicle and vessel tax is assessed on an annual basis with payment to be made together with the compulsory traffic accident liability insurance for motor vehicles.

Land Appreciation Tax

All entities or individuals who receive income from the transfer of State-owned land use rights, buildings and other facilities attached to the land are subject to land appreciation tax. Transfers of real estate by way of inheritance or gifts are explicitly excluded.

Land appreciation tax is calculated on the added value gained by the entities or individuals through the assignment of the State-owned land use rights, buildings and other facilities attached to the land.

Added value gained

= Income derived (cash and/or other assets) - Deductible items

Land appreciation tax payable

= Added value gained x Applicable tax rate - Quick calculation deduction

Deductible items will include:

- Cost of obtaining land use rights
- Cost of developing the land, including construction costs
- Marketing expenses, management expenses and financial expenses
- Taxes and dues relating to the transfer of State-owned land use rights, buildings and other facilities attached to the land
- The assessed price for the transfer of old buildings
- Other deductions specified by the Ministry of Finance

Exemptions

The following are exempted from land appreciation tax:

- The value added amount of the ordinary residential buildings constructed and sold by the taxpayer for civil use is less than 20% of the deductible items
- The land is compulsorily acquired by the State due to State or municipal planned construction requirements
- Subject to the approval of the tax authorities, an individual is transferring his/her ordinary residential property due to change of employment
- The taxpayer had used the property as his primary residence for at least five years

Tax Rates and Calculation Payment

Value Added Amount	Tax Rate	Quick Calculation Deduction
Value added amount < 50% of deductible items	30%	Not applicable
Value added amount > 50% of deductible items but < 100% of deductible items	40%	Deductible amount x 5%
Value added amount > 100% of deductible items but < 200% of deductible items	50%	Deductible amount x 15%
Value added amount > 200% of deductible items	60%	Deductible amount x 35%

Payment

The taxpayer shall submit a tax declaration form and the payment to the local tax authorities within seven days of the signing of the contract for the transfer of the State-owned land use rights, buildings and other facilities attached to the land.

Stamp Duty

Where certain prescribed documents of 13 kinds are executed or used in China, the enterprise or individual is required to pay stamp duty. Contracts concluded via e-mail are also dutiable. Penalties will be imposed if the stamp duty requirements are not met.

The following documents require payment of stamp duty:

- Contracts or similar documents on sales & purchase, processing, contracting of construction projects, property leasing, goods transportation, storage and custody, loan, property insurance, technology, etc.
- Deed of property transfer
- Business account books
- Permits and licences
- Other documents which the Ministry of Finance determines as taxable

Exemptions

The following documents are exempted from stamp duty:

- Duplicates of stamped documents for reference
- Gifts to government, social welfare units or schools
- Agricultural by-product purchase contracts concluded between State-designated purchase departments and village committees or individual peasants
- Non-interest-bearing discount loan contracts
- Preferential loan contracts concluded between foreign governments or international financial institutions and the Chinese Government or State financial institutions
- Deed of property transfer due to restructuring of enterprises (only the newly-added funds are subject to stamp duty)
- Purchases and sales of closed-end security investment funds
- Other documents which the Ministry of Finance approves as being exempt

Payment

Taxpayers are required to calculate the stamp duty themselves and purchase the stamps from the tax authorities and affix the stamps on the taxable documents. If the same document is executed by two or more parties, each party is required to affix separately the full amount of the stamp duty on its retained copy. Moreover, where the amount or value of the transaction indicated on the document is later increased, additional stamp duty is payable.

Stamp Duty Rates

Stamp duty is imposed separately on each contractual party based on the duty rate (between 0.005% and 0.1%), categorised according to the nature of the documents.

Item	Scope	Tax Rate
Purchase and sales contracts	Contracts of supply, pre-purchase, procurement, purchase for an organisation or enterprise, purchase and sale combinations and cooperation, adjustment, compensation, barter etc.	0.03% of the purchase or sales price
Processing contracts	Processing, specific orders, renovations, repairs, printing, advertising, mapping and testing	0.05% of the income from processing or other contracting
Engineering project reconnaissance and design contracts	Prospecting contracts and design contracts	0.05% of the fees received
Construction and installation project contracts	Construction contracts and installation contracts	0.03% of the contract amount
Property leasing contracts	Contracts for the leasing of housing, vessels, aircraft, motorised vehicles, machinery, tools and equipment	0.1% of the leasing fee
Commodity transportation contracts	Contracts for the transport of goods by civil aircraft, rail, ship, river and road and co-ordinated transport contracts	0.05% of the transport costs
Storage and custody contracts	Storage contracts and custody contracts	0.1% of the storage or custody fee
Loan contracts signed between banks or other financial institutions and borrowers	Not including inter-bank short-term loans on which interest is calculated daily. Receipts shall be used as a contract and stamp duty shall be paid as for a contract	0.005% of the amount borrowed
Property insurance contracts	Property, liability, guarantee, and credit insurance contracts. Receipts shall be used as a contract and stamp duty shall be paid as for a contract	0.1% of the insurance premium
Technology contracts	Technology development, transfer, consultancy and service contracts	0.03% of the stated value
Documents of transfer of property rights	Documents of transfer of property titles, copyright, exclusive right of use of trademarks, patents and proprietary technology usage rights	0.05% of the stated value
Business books of account	Namely books of accounts for production and business operations and account books for the recording of funds	0.05% of (paid-in capital + capital surplus); accounting books ¥ 5 per book
Documentation of rights and licenses	Property ownership certificates, industrial and commercial business licenses, trademark registration certificates, patent certificates and land use certificates	¥ 5 per document

Urban Land Use Tax

Where enterprises or individuals are using state-owned land in the cities, county sites, administrative towns or industrial and mining areas, the urban land use tax is levied.

Urban land use tax is calculated on an annual basis by multiplying the area measurement of the land actually used and the fixed quantity tax rate. The tax rate is diversified based on the location of the land.

Resource Tax

Enterprises or individuals engaged in the extraction of minerals or production of salt within the territory of China are liable to pay resource tax. The taxable products and tax rates are as follows:

Product	Tax Rate
Crude oil	¥ 8 - 30 per tonne
Natural gas	¥ 2 - 15 per 1,000 cubic metres
Coal	¥ 0.30 - 5 per tonne
Other non-metallic mineral ore	¥ 0.50 - 20 per tonne or cubic metre
Ferrous metallic mineral ore	¥ 2 - 30 per tonne
Non-ferrous metallic mineral ore	¥ 0.40 - 30 per tonne
Liquid salt	¥ 2 - 10 per tonne
Solid salt	¥ 10 - 60 per tonne

Notes: The resource tax regime is being reformed, aiming to apply ad valorem tax.

Assessment and Administration

Payment shall be made to the local tax authorities where the taxable product is mined or produced. The local tax authorities shall determine the time limit for payment as follows:

Basis Period	Filing and Payment Deadline
1 day	<ul style="list-style-type: none">Provisional payment within 5 days of the end of the period; andFinal return and any discrepancy in the tax amount should be settled within 10 days in the following month.
3 days	
5 days	
10 days	
15 days	
1 month	Within 10 days after the end of the period

Taxation of Representative Offices

Representative offices (ROs) in China are not allowed to engage in direct business operations or direct income-generating activities. However, the tax authorities may levy taxes on China-sourced income arising from certain activities undertaken by ROs.

Taxable Activities	Tax Exempt Activities
<ul style="list-style-type: none"> • Agency trading activities by ROs of trading companies • Various service activities by ROs of consulting companies • Various services by ROs of a group of companies or a holding company extended to its member companies • Advertisement contracting or agency business by ROs of advertising companies • Service activities for tourists by ROs of travel agencies • Consulting services by ROs of banking/financial institutions • Services at various linkages of transportation operations by transportation companies • Other taxable activities by ROs 	<ul style="list-style-type: none"> • Market study • Provision of commercial information • Liaison and other preparatory and supplementary services for manufacture and sale of its head office's own products • Functions performed by the ROs set up by foreign governments or non-profit-making institutions

REPRESENTATIVE OFFICE TAXABLE INCOME

Actual Profit

- When ROs can provide all information and documents relating to the contracts, commission rates and so on
- A full set of accounts has been kept – subject to annual audit by a China-registered CPA or Certified Tax Agent (CTA)

Deemed Profit

- When ROs can only provide the information and document on the contracts or service agreements concluded
- Tax authorities will apply a deemed profit rate not lower than 15% (prior to 2010 was 10%) to the contracts or service agreements concluded

Expenditure Gross-up

- When ROs can not provide sufficient information and/or documents to substantiate the gross income or
- The taxpayer cannot differentiate between genuine trading business and agency business
- $\text{China-sourced income} = \text{Operating expenses} \div (1 - \text{Determined income tax rate} - \text{Business tax rate})$
- Operating expenses shall be certified by a China-registered CPA or CTA

Fixed Assets

When using the expenditure gross-up method, the fixed asset costs incurred are to form part of the cost base. Where the fixed asset costs are high, the fixed assets can be capitalised and depreciated.

Tax Filing and Tax Payment Requirements

	Tax Filing	Tax Payment
CIT	Quarterly basis, within 15 days after the end of each quarter	Same as tax filing
Business Tax (BT)	Monthly basis, within 10 days after the end of each month; or quarterly basis, within 15 days after the end of each quarter	Same as tax filing

An annual CIT and/or BT returns should be filed together with a China-registered CPA's / CTA's audit report within five months from the end of each tax year, together with the tax payment. Any excess payment will be refunded by the tax authorities.

Deductibility of Expenses

Not all costs and expenses incurred by enterprises are deductible. Only reasonable expenses and related expenses incurred in the ordinary course of business for the production of income and not prohibited under the CIT Law are tax deductible. Where an enterprise incurs expenses or assets in the production of non-taxable income, such amounts cannot be deducted, amortised or depreciated.

The following is a list of expenses that are deductible, not deductible and deductions which are restricted:

Deductible Expense	Non-deductible Expenses	Deductions which are restricted
<ul style="list-style-type: none">• Salaries and wages• Basic insurance premiums on pension, medical, unemployment, work injury, maternity, etc.• Insurance premium on properties• Housing fund contributions• Reasonable borrowing expenses• Interest expenses paid to banks	<ul style="list-style-type: none">• Overdue tax surcharge and tax penalty• CIT• Fines, penalties and losses resulting from confiscation of property• Donations for public welfare which exceed 12% of current year's total profit• Commercial insurance premium paid for investors or employees not falling within special job categories• Management fees between	<ul style="list-style-type: none">• Donations for public welfare not exceeding 12% of current year's total profit• Staff welfare expenses not exceeding 14% of total salaries and wages• Labour union funds not exceeding 2% of total salaries and wages• Staff education expenses not exceeding 2.5% of total salaries and wages¹¹• Entertainment expenses are deductible at 60% of the actual amount but shall not

¹¹ Excess may be carried forward

Deductible Expense	Non-deductible Expenses	Deductions which are restricted
<ul style="list-style-type: none"> • Interest expenses paid to non-banks to the extent that they do not exceed the interest rates offered by the banks • Foreign exchange losses of a revenue nature • Leasing expenses for fixed assets • Taxes and dues excluding CIT and VAT 	<ul style="list-style-type: none"> • companies, rentals, royalties and interest within an enterprise • Sponsorship expenses • Unapproved provisions • Expenditures which are not related to the production of income 	<ul style="list-style-type: none"> • exceed 0.5% of the sales revenue for the year • Qualifying advertising expenses and promotional expenses not exceeding 15% of the sales revenue for the year¹²

The above list is not exhaustive.

Depreciation of Fixed Assets

Depreciable fixed assets include:

- Buildings
- Machinery and other mechanical apparatus
- Means of transport
- Other equipment for the purpose of production with useful life of one year or more

Depreciation can be computed based on the straight-line method over the period of the useful life of the asset.

The minimum useful life of assets¹³ is listed as follows:

Depreciable Fixed Assets	Minimum Useful Life
Buildings	20 years
Aircraft, trains, ships, machines and equipment and other facilities used in production	10 years
Appliances, tools and furniture for production and business operations	5 years
Means of transportation other than aircraft, trains or ships	4 years
Electronic equipment	3 years

Amortisation of Intangible Assets

The cost of intangible assets related to business activities (include patent rights, proprietary technology, ownership of trademarks, copyright, ownership of sites, etc) can be amortised by the straight-line method over a period of not more than 10 years.

¹² Excess may be carried forward

¹³ Use of a shorter useful life (affected by advancement in technology or constant exposure to high tremor and high corrosion) is subject to examination and approval by the relevant tax authorities.

The cost of land use right is also classified as intangible assets in China and is subject to amortisation over the lease term.

Amortisation of self-generated goodwill does not qualify for tax deduction.

Tax Credit for Foreign Tax Paid

The foreign income tax paid on:

- taxable income from sources derived outside China by a resident enterprise, or
- taxable income from sources derived outside China by a non-resident enterprise with an establishment or place of business in China,

may be credited against the current year CIT payable. The tax credit shall not exceed the tax payable for the current period. Any excess foreign tax credit may be carried forward and credited against the CIT payable for five years.

Tax Incentives

Since China adopted the “open door” policy in the 1980s, foreign direct investments in China have been increasing steadily. To stimulate the domestic economy and at the same time attract more foreign investments into China, the country has introduced an array of tax incentives which were available mainly to foreign enterprises. These tax incentives had been abolished under the new CIT Law. However, grandfathering (or transitional) provisions have been introduced in the new CIT Law for those enterprises enjoying tax holidays under the old regime.

Under the new CIT Law, tax incentives are industry (rather than regional) focused. Tax incentives are now available to both domestic and foreign enterprises.

The tax incentives under the new CIT law may take the form of:

- Reduced tax rates
- Tax holidays
- Additional deduction of expenses
- Additional offset against taxable income or tax payable

Industries Eligible for Exemption from or Reduction of CIT

The Chinese Government grants preferential tax treatment for the following industries:

Industry	Preferential Tax Treatment/Rates
Agriculture, forestry, animal husbandry or fishery industry Note: Enterprises engaging in prohibited or restricted projects are not eligible for this incentive	Full exemption or 50% tax reduction depending on the kind of projects enterprises engage in

Industry	Preferential Tax Treatment/Rates
<p>Those with investment in or operation of public infrastructure projects eligible for key support from China</p> <p>Note: Enterprises constructing the infrastructure for own-use and contractors engaged in constructing infrastructure do not qualify for this incentive</p>	<p>Three-year tax exemption and three-year 50% tax reduction, starting from the year the project <u>first generates operating income</u></p>
<p>Qualified environmental protection and energy or water conservation projects</p>	<p>Three-year tax exemption and three-year 50% tax reduction, starting from the year the project <u>first generates operating income</u></p>
<p>Technology transfers</p>	<p>First ¥ 5 million are exempted from tax. The remaining amount will enjoy 50% tax reduction.</p>
<p>Software production</p>	<ul style="list-style-type: none"> • VAT rebate used for R&D and production expansion will be exempt from CIT • Two-year tax exemption and three-year 50% tax reduction, starting from the first profit-making year • Key software production enterprises will be eligible for a reduced tax rate of 10% if they do not enjoy any tax incentives in the year • Staff training expenses are tax deductible when incurred • Software can be depreciated over a minimum period of 2 years, subject to approval
<p>Integrated circuits (IC) production</p>	<ul style="list-style-type: none"> • Assets can be depreciated over a minimum period of 3 years, subject to approval • Depending on the investment quantum and the width of the IC, enterprises may be eligible for: <ul style="list-style-type: none"> a) a reduced tax rate of 15%; b) five-year tax exemption and five-year 50% tax reduction starting from the <u>first profit-making year</u>; or c) two-year tax exemption and three-year 50% tax reduction, starting from the <u>first profit-making year</u>. • Eligible for 40% reinvestment tax refund from 2008 to 2010 • Where the IC production is in the Western Region, the enterprises are eligible for 80% reinvestment tax refund from 2008 to 2010

Industry	Preferential Tax Treatment/Rates
Security investment funds	<ul style="list-style-type: none"> Income received by security funds from the stock markets is temporarily exempt from tax Income received by investors from security funds is temporarily exempt from tax Gains derived by fund managers from trading in bonds and stocks (using security funds) is temporarily exempt from tax

Tax-exempt income

The following revenues are exempt from CIT:

- Interest from state treasury debts;
- Qualified dividends, profit distributions and other returns on equity investments derived by a resident enterprise from another resident enterprise;
- Qualified dividends, profit distributions and other returns on equity investments derived by a non-resident enterprise from another resident enterprise, to the extent that such income is connected with the establishment or place of business in China of the non-resident enterprise; and
- Revenue of a qualified non-profit making organisation.

Reduction of CIT Rate

Small Scale Enterprises

The tax rate for small scale enterprises with low profitability and not engaging in restricted or prohibited industries has been reduced to 20%.

The qualifying conditions for "small scale" industrial enterprises and all other enterprises are tabulated below.

Type of enterprises	Taxable income for the year	Total number of employees	Total assets
Industrial	not exceed ¥ 300,000	not exceed 100	not exceed ¥ 30m
Others	not exceed ¥ 300,000	not exceed 80	not exceed ¥ 10m

Advanced and New Technology Enterprises

The tax rate has been reduced to 15%.

Advanced and new technology enterprises refer to resident enterprises (set up for at least one year) that own core proprietary intellectual property (IP) rights. Such enterprises also have to meet all of the following conditions:

- Obtained the IP rights by way of purchase, transfer, donation, merger, research and development (R&D), etc. in the last three years;
- Products or services fall within the prescribed scope of Advanced and New Technology Sector Eligible for Key Support from the State, which includes electronic information technology, biological and medical technology, aviation and space technology, new materials technology, high technology services, new energy and energy conversation technology, resources and environmental technology and transformation of traditional industries using new technology;
- The proportion of R&D expenses to sales revenue in the last three years must meet the following prescribed percentage:

Total sales revenue in preceding year	% of R&D expense over total revenue
Below ¥ 50 million	6%
Below ¥ 50 million	4%
Above ¥ 200 million	3%

- The proportion of revenue from high and new technology products or services to total sales revenue is at least 60% annually;
- The proportion of the number of R&D personnel (with university degrees) to the total number of employees is at least 30%, amongst which at least 10% is engaged in R&D activities; and
- Other conditions prescribed by the relevant authorities.

In addition, newly-established Advanced and New Technology Enterprises in designated areas (Shenzhen, Zhuhai, Shantou, Xiamen, Hainan Special Economic Zone and Shanghai Pudong New Area) that require the key support of China will continue to enjoy tax holidays. These Advanced and New Technology Enterprises will enjoy a two-year tax exemption and a three-year 50% tax reduction from the first-income generating year, i.e. 0% tax in first two years and 12.5% tax in the third to fifth year and tax of 15% thereafter.

Autonomous Regions

The autonomous government of ethnic autonomous regions may grant enterprises operating in such regions a reduction or exemption of CIT, which is subject to the approval of the Chinese Government.

Additional Deduction of Expenses

The following expenses will qualify for additional deduction:

Expenses	Deduction amount
R&D expenses incurred for the development of new technologies, new products and new techniques	150%
Salary expenses paid to disabled personnel employed by enterprises	200%
Salary expenses paid to personnel employed by enterprises engaging in encouraged industries	To be prescribed by the State Council

Additional Offset Against Taxable Income or CIT Payable

Venture Capital Enterprise

Enterprises making venture capital investment in areas eligible for key support and encouragement from China are eligible to offset 70% of their investment against their taxable income for CIT purposes in the year in which the equity has been held for two years. Any excess can be carried forward to offset against future taxable income.

Designated raw materials

An enterprise producing goods in line with China's production policies and ensuring a comprehensive utilisation of resources is eligible to deduct 10% of the revenue derived from such products against its income.

Environmental Protection, Energy and Water Conservation or Production Safety Equipment

In the case of special equipment for environmental protection, energy and water conservation or production safety, 10% of the investment in their purchase may be credited against the CIT payable. Any excess can be carried forward for five years. However, if the holding period is less than five years, the amount credited shall be repaid to the tax authority.

Grandfathering Provisions for Tax Incentives

Enterprises established before 16 March 2007 which are entitled to reduced tax rates in accordance with the old CIT Law are given a five-year transitional period with effect from 1 January 2008.

Enterprises with tax holidays

Enterprises enjoying tax holidays (i.e. two-year tax exemption and three-year 50% tax reduction) currently will continue to enjoy the incentive until the expiry of the incentive. Enterprises which have not started enjoying the tax holidays due to their losses are deemed to have commenced the tax holidays from 1 January 2008.

Enterprises with reduced tax rate

(i) Enterprises enjoying a reduced tax rate of 15% will have their tax rates increased step by step to 25% as follows:

2008	18%
2009	20%
2010	22%
2011	24%
2012	25%

(ii) For enterprises which are also enjoying the 50% tax reduction during the unutilised tax holiday, the tax rates are 50% of the rates given in the table above.

(iii) Enterprises enjoying a reduced tax rate of 24% will pay CIT at 25% with effect from 1 January 2008.

Western Region

The tax incentives prescribed in Caishui [2001] No. 202 will continue to apply. This means that enterprises in the Western Region which are enjoying a lower tax rate of 15% can continue to enjoy the tax incentive until its expiry in 2010. Enterprises currently enjoying the two-year tax exemption and three-year tax reduction will continue to enjoy the tax holiday until it expires. It is, however, expected that the tax incentives are highly likely to be continued for another ten years from 2011 to 2021.

Withholding Taxes

Enterprises without establishments or place of business in China are subject to withholding tax on the following China-sourced income:

1. Profits (dividends)
2. Interest income
3. Rental income
4. Royalty income
5. Gains from disposal of properties
6. Other income

Items 1 to 4 are subject to withholding tax on the gross amount (i.e. no deductions are allowed). Item 5 is subject to withholding tax on the net amount (i.e. sales proceeds less the net property value). Item 6 can be taxed on either the gross amount or net amount.

The original withholding tax rate was 20%. The rate has been reduced to 10% pursuant to Article 91 of the Detailed Implementation Rules.

Concession on Dividend Withholding Tax

Before the implementation of the new CIT law, dividends were temporarily exempted from withholding tax. The removal of this exemption is clarified in Caishui [2008] No. 1 issued on 22 February 2008, which states that dividends paid out of profits from 2008 and beyond shall be subject to withholding tax, while dividends paid from pre-2008 profit shall remain exempted.

Use of Tax Treaties

China has concluded an extensive number of tax treaties¹⁴ which help to reduce the domestic withholding tax rates. If the domestic withholding tax rates are more beneficial as compared to the tax treaties, the domestic withholding tax rates will apply instead.

Administration

The person making payment to non-resident enterprises with no establishment or place of business in China is required to withhold the tax. The person has to submit a withholding tax return and remit the withheld tax within seven days of the date of withholding. Late payment penalties will be imposed on the overdue amount.

Where interest, royalty and rental expenses have been accrued and expensed in the accounts but payments are not due yet, the amounts are deemed to have been paid to the non-resident enterprise and withholding tax is payable in the current accounting period.

¹⁴ For a list of the treaty countries, please refer to Double Taxation Agreements section.

Double Taxation Agreements

Cross-border transactions have increased since China adopted an “open door” policy for foreign investments in the 1980s. To mitigate the effects of double taxation on the same income, China has negotiated and concluded bilateral treaties with numerous countries for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and/or capital.

As at 31 March 2010, China had concluded 89 agreements and two arrangements for the Avoidance of Double Taxation (DTA). The following lists the treaty countries and the withholding tax rates on dividend, interest and royalties payment:

	Country	Dividend (%)	Interest (%)	Royalties (%)
1	Albania	10	10	10
2	Algeria	5/10 ¹⁵	7	10
3	Armenia	5/10 ¹⁶	10	10
4	Australia	15	10	10
5	Austria	7/10 ¹⁷	7/10 ¹⁸	6/10 ¹⁹
6	Azerbaijan	10	10	10
7	Bahrain	5	10	10
8	Bangladesh	10	10	10
9	Barbados	5	10	10
10	Belarus	10	10	10
11	Belgium	10	10	6/10 ²⁰
12	Brazil	15	15	15/25 ²¹
13	Brunei	5	10	10
14	Bulgaria	10	10	7/10 ²²
15	Canada	10/15 ²³	10	10
16	Croatia	5	10	10
17	Cuba	5/10 ²⁴	7.5	5

¹⁵ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

¹⁶ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

¹⁷ 7% of gross dividend if recipient is a company holding directly at least 25% of the voting shares of the dividend-paying company or 10% of gross dividend in all other cases

¹⁸ 7% of gross interest if received by a bank or financial institution or 10% of gross interest in all other cases

¹⁹ 6% of gross royalties if paid for the use or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

²⁰ 6% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

²¹ 25% of gross royalties if paid for the use of or the right to use trademarks and 15% of gross royalties in all other cases

²² 7% of gross royalties if paid for the use or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

²³ 0% of gross dividend if recipient is a company owning at least 10% of the voting stock of the dividend-paying company or 15% of gross dividend in all other cases

²⁴ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

	Country	Dividend (%)	Interest (%)	Royalties (%)
18	Cyprus	10	10	10
19	Czech Republic	10	10	10
20	Denmark	10	10	7/10 ²⁵
21	Egypt	8	10	8
22	Estonia	5/10 ²⁶	10	10
23	Federal Republic of Yugoslavia	5	10	10
24	Finland	10	10	7/10 ²⁷
25	France	10	10	6/10 ²⁸
26	Georgia	0/5/10 ²⁹	10	5
27	Germany	10	10	7/10 ³⁰
28	Greece	5/10 ³¹	10	10
29	Hong Kong	5/10 ³²	7	7
30	Hungary	10	10	10
31	Iceland	5/10 ³³	10	7/10 ³⁴
32	India	10	10	10
33	Indonesia	10	10	10
34	Iran	10	10	10
35	Ireland	5/10 ³⁵	10	6/10 ³⁶
36	Israel	10	7/10 ³⁷	7/10 ³⁸
37	Italy	10	10	7/10 ³⁹

²⁵ 7% of gross royalties if derived from rental of industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

²⁶ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

²⁷ 7% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

²⁸ 6% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

²⁹ 0% of gross dividend if recipient is a company holding directly or indirectly at least 50% of the capital of the dividend-paying company and has invested more than €2 million in the capital of the company paying the dividend, 5% of gross dividend if recipient is a company holding directly or indirectly at least 10% of the capital of the dividend-paying company and has invested more than €100,000 in the capital of the company paying the dividend or 10% of gross dividend in all other cases

³⁰ 7% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

³¹ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

³² 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

³³ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

³⁴ 7% of gross royalties if paid for the rental of industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

³⁵ 5% of gross dividend if recipient is a company holding directly at least 25% of the voting power of the dividend-paying company or 10% of gross dividend in all other cases

³⁶ 6% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

³⁷ 7% of gross interest if received by bank or financial institution or 10% of gross interest in all other cases

³⁸ 7% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

	Country	Dividend (%)	Interest (%)	Royalties (%)
38	Jamaica	5	7.5	10
39	Japan	10	10	10
40	Kazakhstan	10	10	10
41	Kuwait	5	5	10
42	Kyrgyzstan	10	10	10
43	Laos	5	10	10
44	Latvia	5/10 ⁴⁰	10	10
45	Lithuania	5/10 ⁴¹	10	10
46	Luxembourg	5/10 ⁴²	10	6/10 ⁴³
47	Macau	10	7/10 ⁴⁴	10
48	Macedonia	5	10	10
49	Malaysia	10	10	10/15 ⁴⁵
50	Malta	10	10	10
51	Mauritius	5	10	10
52	Mexico	5	10	10
53	Moldova	5/10 ⁴⁶	10	10
54	Mongolia	5	10	10
55	Morocco	10	10	10
56	New Zealand	15	10	10
57	Nigeria	7.5	7.5	7.5
58	Norway	15	10	10
59	Oman	5	10	10
60	Pakistan	10	10	12.5
61	Papua New Guinea	15	10	10
62	Philippines	10/15 ⁴⁷	10	10/15 ⁴⁸

³⁹ 7% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁴⁰ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁴¹ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁴² 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁴³ 6% of gross royalties if paid for the use of or the right to use industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁴⁴ 7% of gross interest if received by a bank or financial institution or 10% of gross interest in all other cases

⁴⁵ 15% of gross royalties if paid for the use of or the right to use any copyright of literary or artistic work including cinematograph films, or tapes for radio or television or 10% of gross royalties in all other cases

⁴⁶ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁴⁷ 10% of gross dividend if recipient is a company holding directly at least 10% of the capital of the dividend-paying company or 15% of gross dividend in all other cases

⁴⁸ 10% of gross royalties if paid for the use of or the right to use any patent, trademark, design or model, plan, secret formula or process, or from the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience or 15% of gross royalties if paid for the use, or the right to use any copyright of literary, artistic or scientific work including cinematographic films or tapes for television or

	Country	Dividend (%)	Interest (%)	Royalties (%)
63	Poland	10	10	7/10 ⁴⁹
64	Portugal	10	10	10
65	Qatar	10	10	10
66	Republic of Korea	5/10 ⁵⁰	10	10
67	Romania	10	10	7
68	Russia	10	10	10
69	Saudi Arabia	5	10	10
70	Seychelles	5	10	10
71	Singapore	5/10 ⁵¹	7/10 ⁵²	6/10 ⁵³
72	Slovenia	5	10	10
73	South Africa	5	10	7/10 ⁵⁴
74	Spain	10	10	6/10 ⁵⁵
75	Sri Lanka	10	10	10
76	Sudan	5	10	10
77	Sweden	5/10 ⁵⁶	10	7/10 ⁵⁷
78	Switzerland	10	10	6/10 ⁵⁸
79	Tajikistan	5/10 ⁵⁹	8	8
80	Thailand	15/20 ⁶⁰	10	15
81	The Netherlands	10	10	6/10 ⁶¹
82	Trinidad and Tobago	5/10 ⁶²	10	10
83	Tunisia	8	10	5/10 ⁶³

broadcasting

⁴⁹ 7% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁵⁰ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁵¹ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁵² 7% of gross interest if received by a bank or financial institution or 10% of gross interest in all other cases

⁵³ 6% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁵⁴ 7% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁵⁵ 6% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁵⁶ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁵⁷ 7% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁵⁸ 6% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁵⁹ 5% of gross dividend if recipient is a company holding directly at least 10% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁶⁰ 15% of gross dividend if recipient holds directly or indirectly at least 25% of the shares of the dividend-paying company or 20% of gross dividend in all other cases

⁶¹ 6% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁶² 5% of gross dividend if recipient holds directly at least 25% of the capital of the dividend-paying company or 10%

⁶³ 5% of gross royalties if paid for technical or economic studies or for technical assistance or 10% of gross royalties if paid

	Country	Dividend (%)	Interest (%)	Royalties (%)
84	Turkey	10	10	10
85	Ukraine	5/10 ⁶⁴	10	10
86	United Arab Emirates	7	7	10
87	United Kingdom	10	10	7/10 ⁶⁵
88	United States	10	10	7/10 ⁶⁶
89	Uzbekistan	10	10	10
90	Venezuela	5/10 ⁶⁷	5/10 ⁶⁸	10
91	Vietnam	10	10	10

Tax treaty with Nepal is awaiting ratification.

The DTAs spell out the tax rates for specific incomes and state which country has the right to tax and at the same time, define the scope of the different categories of income. When the provisions of the tax treaty concluded between the Chinese Government and a foreign government are different from the provisions of the new CIT Law, the provisions of the tax treaty shall prevail.

Anti-Avoidance Provisions

For the first time, anti-avoidance provisions have been included in the CIT Law to counter tax avoidance arrangements entered into by taxpayers. The anti-avoidance provisions under the new CIT Law are:

- Transfer pricing provisions;
- Controlled foreign corporations (CFC) rules;
- Thin capitalisation; and
- General anti-avoidance provision.

Under these provisions, the tax authorities are empowered to make reasonable tax adjustments within 10 years from the tax year when the transactions occurred. If the taxpayer is required to pay additional tax for such adjustments, interest will also be levied on the additional tax payable.

for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematographic films, or films or tapes for radio or television broadcasting, any patent, trademark, design or model plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific experience

⁶⁴ 5% of gross dividend if recipient is a company holding directly at least 25% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁶⁵ 7% of gross royalties if paid for the use of or the right to use any industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁶⁶ 7% of gross royalties if paid for the rental of industrial, commercial or scientific equipment or 10% of gross royalties in all other cases

⁶⁷ 5% of gross dividend if recipient is a company holding directly at least 10% of the capital of the dividend-paying company or 10% of gross dividend in all other cases

⁶⁸ 5% of gross interest if received by banks or 10% of gross interest in all other cases

Transfer Pricing

Related enterprises are to carry out business transactions at arm's length⁶⁹. Otherwise, the tax authorities are authorised to make appropriate reasonable adjustments using acceptable methods (discussed below).

The new CIT law also permits deduction on arm's length cost sharing allocation⁷⁰ among related enterprises for the joint development or transfer of intangible assets or for the joint provision or receipt of labour services subject to the agreement with the tax authorities. Otherwise, such expenses are not tax deductible.

Definition of Related Enterprises

For transfer pricing purposes, enterprises are considered related if any of the following are present:

- The enterprises are directly or indirectly controlled by the same third party
- The operations of the enterprise such as financing, business operations, purchases of materials and sale of products or commodities are controlled by another enterprise directly or indirectly
- There exists other mutually beneficial affiliations

Acceptable Methods of Determining Arm's Length Transfer Pricing

Method	Description
Comparable uncontrolled price method	The price that is similar or identical to transactions between independent enterprises
Resale price method	The reasonable resale profit margin to be gained from independent enterprises
Cost-plus method	The cost plus reasonable expenses and profit mark-up
Profits split method	The division of profits that independent enterprises would have expected to realise from engaging in the transactions
Transactional net margin method	To adopt the net profit margin relative to an appropriate base (eg. costs, sales or assets) that a taxpayer realises from a controlled transaction

Other methods (which are not stated above) in compliance with the arm's length principle are also accepted.

Advance Pricing Arrangements

To avoid any adjustments by the tax authorities, the taxpayer may come to a prior agreement with the tax authorities regarding the transfer pricing method for inter-company transactions for future years. Such agreements are known as Advance Pricing Arrangements or APAs for short.

⁶⁹ The arm's length principle requires transactions carried out between related parties to be made under comparable conditions and circumstances as similar transactions carried out between independent parties.

⁷⁰ The allocation follows the principle of matching costs with anticipated benefits.

Administration

Enterprises are required to file annual returns on related party transactions within five months of the accounting year-end together with their annual CIT return.

CFC Rules

Profits will be deemed distributed to a resident enterprise by a foreign enterprise if:

1. the foreign enterprise is controlled by resident enterprises or resident individuals;
2. the foreign enterprise's effective tax rate is lower than 12.5%; and
3. the foreign enterprise does not distribute its profits or reduces the distribution of its profits to the resident enterprise.

What is control?

There are two ways of determining whether one has control over the foreign enterprise.

1. Shareholding percentages - When resident enterprises or resident individuals hold, directly or indirectly, more than 10% of voting shares in a foreign enterprise, and collectively hold more than 50% of shares in the foreign enterprise.
2. Substantive control - When resident enterprises or resident individuals have substantive control of the foreign enterprise in terms of shareholdings, funding, operations, purchases and sales, etc.

Thin Capitalisation

The new CIT Law restricts interest deduction for debt investments from related parties in excess of a prescribed debt-equity ratio. The Ministry of Finance and SAT have formulated the prescribed debt-equity ratio as below:

1. Financial Institutions: 5:1
2. Other enterprises: 2:1

Otherwise, if an enterprise can present evidence that show the related party transactions are conducted on an arm's length basis, or its effective tax burden does not exceed that of domestic related party, the interest it paid to the domestic related party can be deducted before tax.

General Anti-Avoidance Provisions

The tax authorities are also empowered to make reasonable adjustments to the enterprise's taxable profits when enterprises enter into business transactions with the primary intention to reduce, defer or avoid tax payments.

Tax Filing and Payment Deadlines

Type of Return	Person Responsible for Filing	Filing and Payment Deadline
Individual Employee Tax	Withholding agent (i.e. the employer)	Within 7 days after the end of each month.
Corporate Income Tax	Enterprises and foreign enterprises with establishments in China	<ul style="list-style-type: none"> a) Monthly/quarterly return and payment – within 15 days after the end of each month/quarter. b) Annual return and payment – within 5 months after the end of the tax year (together with financial and accounting records).
Withholding Tax	Withholding agent	Within 7 days of the payment of income subject to withholding tax.
Business Tax	Taxpayer or withholding agent	<ul style="list-style-type: none"> a) 5, 10 or 15 days' return and payment – within 5 days of end of period. Final return and discrepancy in tax amount to be settled within 15 days in the following month. b) 1 month or 1 quarter's return and payment – within 15 days from the end of the period.
Value Added Tax	Taxpayer	<ul style="list-style-type: none"> a) 5, 10 or 15 days' return and payment – within 5 days of end of period. Final return and discrepancy in tax amount to be settled within 15 days in the following month. b) 1 month or 1 quarter's return and payment – within 15 days from the end of the period. c) Imports – within 15 days after Customs issues the tax payment certificate. d) Exports – apply for a refund of tax paid on a monthly basis.
Consumption Tax	Taxpayer	<ul style="list-style-type: none"> a) 5, 10 or 15 days' return and payment – within 5 days of end of period. Final return and discrepancy in tax amount to be settled within 15 days in the following month. b) 1 month or 1 quarter's return and payment – within 15 days from the end of the period. c) Imports – within 15 days after Customs issues the tax payment certificate.
Customs Duty	Taxpayer or agent	Within 15 days after the date of the issuance of Customs Duty payment certificate.

Type of Return	Person Responsible for Filing	Filing and Payment Deadline
Deed Tax	Transferee	Within 10 days from the date that the contract for the ownership transfers was signed.
Land Appreciation Tax Taxpayer	Taxpayer	Within 7 days of the signing of the contract for the transfer of the real estate
Urban Real Estate Tax	Taxpayer	Quarterly or half-yearly instalment, determined by the local tax authority.
Resource Tax	Taxpayer or withholding agent	<p>a) 1, 3, 5, 10 or 15 days' return and payment—within 5 days of end of period. Final return and discrepancy in tax amount to be settled within 10 days in the following month.</p> <p>b) 1 month's return and payment – within 10 days from the end of the period.</p>
Transfer Pricing	Taxpayer	File an annual return of related party transactions within 5 months of the accounting year- end.



The CCTV Tower, Beijing

Employment

Foreign Visa

Foreigners who travel to China for short periods for business purposes are required to apply for a business visa, but not an employment permit. A foreigner who is to be stationed in China for employment is required to obtain an Employment Permit.

Foreign Personnel

Employment Licence, Employment Permit and Residence Permit

There are no restrictions on the number of foreign personnel that may be employed by a foreign investment enterprise or foreign business in China, nor is there a time period imposed on their employment. Foreign investment enterprises are required to submit resumes of their foreign employees to the local labour bureau for assessment. The application for employment permits for foreigners may not be approved. It depends on the labour bureau's decision whether there is local talent with similar background and skills available to deliver comparable services.

If the application is approved, the local labour bureau will issue an Employment Licence and temporary "Z" visa notification letter to the foreign investment enterprise. The foreign personnel will submit an application to the Chinese Embassy in their country of origin for a temporary "Z" visa using the Employment Licence and temporary "Z" visa notification letter. With the issuance of the temporary "Z" visa and the foreign personnel's arrival in China, the foreign investment enterprise will need to submit an application for an employment permit to the local labour bureau within 30 days of the foreign personnel entering China. A medical examination report is required during the submission of the application.

The employment permit issued is usually valid for one year and has to be renewed annually with a valid employment contract. Senior management staff holding appointments such as the Chief Representative, General Manager or Legal Representative/Chairman will be granted an employment permit with a validity of two years or more.

Spouses, children under the age of 18 years and parents accompanying the foreign personnel may at the same time apply for residence permits for the same period. The application must be supported by valid certification of family relationships.

Foreign personnel working for a representative office will require a Representative Card/Certificate from the local industry and commerce bureau.

China Labour Law

There are many regulations governing various aspects of human resources. Some of the major ones are the Labour Law, Labour Contract Law, Social Contributions regulations and Salary Payment regulations etc. The regulations include sections on labour contracts, employee handbook, social contributions, salary payments, and termination and severance payments. The rules governing social contributions and salary payments etc vary in different cities of China. The laws also cover areas such as individual and collective labour contracts, working hours, holidays, wages, occupational health and safety, the protection of women and minors, vocational training, social insurance and welfare, labour disputes, and supervision and inspection.

Provisions in Chinese laws and labour contracts regulate the employer-employee relationship in a foreign investment enterprise. Any labour contracts should be separate contracts taken out with individual workers, although many sign one contract with the labour union which acts on behalf of all workers [Ministry of Labour Social Security MOLSS (1994) No.485]. The latter procedure regulates the enterprise's relationship with the labour union as well as with its employees.

Foreign investors should also be guided by the following labour laws and regulations:

1. Rules for the Administration of Employment of Foreigners in China
2. Trade Union Law of the People's Republic of China
3. Regulations Concerning Minimum Wages in Enterprises

China Labour Contract Law

The new Labour Contract Law (LCL) was adopted on 29 June 2007 and came into effect on 1 January 2008.

All entities, regardless of the number of employees they have, will be required to comply with the new law and regulations.

Written Labour Contract

The LCL requires all labour contracts to be established in writing. It will impose significant penalties on employers which fail to comply with new contract laws. Employees reserve the right to claim double payment for months worked without a written contract, capped at 12 months. This rule is targeted at companies which adopt "informal" employment relationships.

Probation Period

The LCL imposes severe restrictions on the use of probationary periods in employment relationships. Probationary periods are permitted, but the length is limited based on the terms of the employment contract, with an absolute maximum set at six months. Furthermore, an employee is subject to one single probationary period by the same employer. Wages during the probationary period must be more than the minimum wage of the same position and at least 80% of the contractual wage. The wage should not be less than the minimum local social wage as regulated.

Open Term Contract

Under Chinese law, an employee shall be discharged either at the expiration of a term contract or for a cause. To avoid the need to terminate an employee for a cause, employers could choose to continuously hire employees under a series of short-term contracts in the past. However, this practice is generally no longer possible under the LCL as an employer is permitted to enter into a maximum of only two term contracts with employees.

If an employee stays on after the expiration of his second term contract, the subsequent employment contract is deemed to be an "open-term contract." Under the latter, the employee is employed until he chooses to terminate the contract or when he reaches retirement age. The employer can only terminate the employee's services if he breaches the terms of the contract.

Non-competition

There are restrictions on the use of non-competition agreements. Many foreign employers require most or all of their Chinese employees to enter into non-competition agreements that restrict their right to work for a competitor after they leave the company. The LCL imposes significant curbs on the use of these agreements. The most important restriction is that non-competition agreements cannot be imposed on all employees. Only senior management and other employees with access to critical trade secrets can be required to enter into a non-competition agreement. The restriction against working for a competitor is limited to two years. The agreement must also be limited in geographic scope to a reasonable area and the employer must pay compensation to the employee during the period that the non-competition restriction is in effect.

Written Regulations of Employment – Employee Handbook

All employers must maintain a written employee handbook setting out the basic rules and regulations of employment. This requirement applies to all companies regardless of size and number of employees. The failure to maintain an employee handbook means that an employer will effectively be unable to discharge employees for cause, since "cause" must be determined with reference to the employee handbook.

Termination of Employment

Foreign investment enterprises have the right to dismiss unqualified employees and those who violate the enterprises' rules and regulations. However, they are not permitted to dismiss employees undergoing medical treatment for injuries incurred at work, women who are pregnant and women on maternity leave. They also cannot dismiss employees who have been working continuously for more than 15 years for the employer and who are less than five years from retirement age. Notice must be given and compensation must be paid to employees who have been dismissed in such instances, either during or after their contract period, according to the number of years they have served in the foreign investment enterprise.

Recruitment of Staff

Recruitment methods differ for foreign investment enterprises and representative offices.

Joint ventures are able to employ staff from the local workforce and normally do so through recommendations from their Chinese partner or the local authorities. Staff from the Chinese partner's original work entity will often be employed by the venture. In joint ventures, the foreign partner may find that the Chinese partner tends to hire too many employees and will encourage the Chinese partner to let extra workers leave. The Chinese partner is usually responsive to any suggestions that will eventually pay off and provide financial security to the regular members of the workforce.

Wholly foreign-owned enterprises are in the same position as joint ventures, in as much as they have a free hand in recruiting staff locally. However, not having the contacts afforded by a Chinese partner, they will often need to rely on government agencies, search firms, advertising, universities or other methods to obtain the best talent.

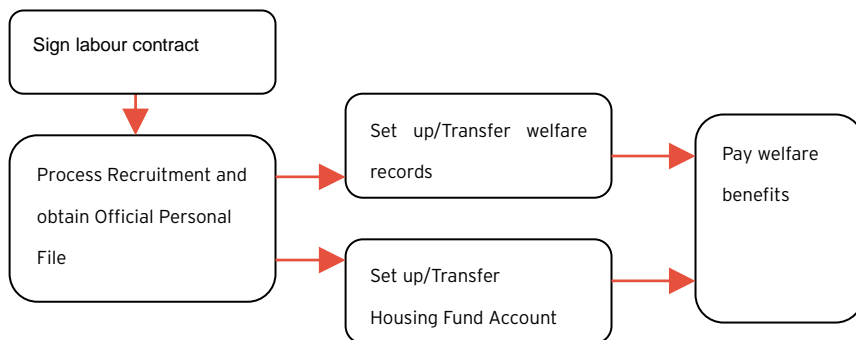
The situation is completely different in the case of representative offices (ROs), which are required to hire local staff through a government agency since ROs are not qualified entities under Chinese labour laws. ROs can get assistance from the Foreign Enterprise Service Corporation (FESCO), China International Intellectech Corporation (CIIC) or other government labour agencies authorised to operate by the local government. These labour agencies handle the recruitment of all levels of professional and non-professional staff, while ROs interview and select their own employees. The government labour agencies traditionally acted as the employer, or controlling unit, of the staff of foreign companies, and this caused difficulties in areas such as loyalty and motivation. Currently most ROs pay only a management fee and social contribution to the government labour agency and pay wages to their staff directly.

Chinese executives and support personnel can be recruited in Hong Kong, Singapore, Taiwan, the United States, Canada, United Kingdom or Australia. Many companies send such employees to China as expatriates with headquarters-based salaries and allowances.

The regulations also specify minimum wages for local staff in different cities based on the local economic environments. At present the minimum wages have not exceeded ¥1,200 per month. It may be adjusted by the authorities each year.

Employment Procedures

The recruitment of local employees is dependent on the qualifications and resident status of each individual. Note that the Hukou (residence certificate) may have an impact on the administrative procedures for employment as well as the level of welfare payable to employees. The following flowchart provides an overview of the normal employment procedures.



Cost of Employment

Expatriates are expensive but foreign companies often require their expertise and skills to lay the foundation for future operations and success. They consider the costs well-spent if the expatriates have been properly screened, selected and prepared to carry out a clearly established mission in China. The determination of wages, allowances, benefits and other incentives for expatriates in China differ widely.

Local compensation and benefits tend to differ from region to region and city to city, and may be influenced by the structure of the enterprise and the following factors:

- Amount of foreign investment
- Presence of multinational companies
- Shortage of qualified employees
- Level of difficulty in recruiting and retaining staff
- Inflation
- Employee turnover
- Cost of accommodation/housing

Given all these variables, it is unwise to rely on a single source of information for determining compensation and benefit packages for local employees and expatriates. It is recommended that foreign companies obtain updates on comparative surveys and other salary and benefits information from human resource consulting firms and accounting firms as they are in close touch with the local market place.

The labour regulations governing foreign investment enterprises allow them greater freedom in establishing their own wage scales and incentive schemes. The board of directors is responsible for determining the salary levels for the enterprise's local senior employees.

In foreign investment enterprises, the actual wages paid to Chinese workers would seem to be relatively low. However, there are a number of other costs that make the payroll a greater element of the overall cost than it would first appear. For example, in order to attract qualified and skilled workers, foreign investment enterprises will often offer higher salaries, performance-related incentives and bonuses. Some ventures even provide housing or establish rental arrangements to attract workers. Training can also be a significant item in the overall labour cost, particularly for enterprises using new and advanced technology.

Foreign representative offices operating in China may either pay their employees directly or pay the relevant government labour agency who hires them.

The labour agencies' monthly administration charges for each staff member vary depending on the job category and the benefits package in which the employee is enrolled. Since ROs are required to pay a labour agency's administration charges for hiring their local employees, their local labour costs are generally higher than those of joint ventures or wholly foreign-owned enterprises, which can hire and pay their staff directly.

Even in cases where foreign investment enterprises pay their staff directly, some pay an additional fee to one of the government labour agencies to manage statutory labour benefits.

Welfare Benefits

The laws governing labour management of foreign investment enterprises require that an enterprise make payments to the following social welfare and insurance funds for Chinese employees:

- Pension (old age)
- Unemployment
- Medical
- Work-related injury
- Maternity
- Housing fund

The amounts paid and the funds to which payments are made by a foreign-invested enterprise vary according to location. These contributions are part of the total compensation package for the local employee, which includes the base salary, allowances and bonuses. The table below gives an overview of the contribution levels adopted in Beijing and Shanghai.

The base amount for the calculation of social insurance is the average monthly salary (basic salary before tax, overtime pay and allowance) of each employee in the preceding year, while this is subject to a cap of 3 times the average earnings of the city in the previous year. Minimum contribution levels are defined at 60% of the previous year's average salary for the city.

The following table presents the 2010 welfare rates for some cities as an example.

	Beijing	Shanghai	Shenzhen	Tianjin
2009 average monthly gross salary	3,726	3,566	3,621	2,793
Maximum welfare basis for 2010	11,178	10,698	10,863	8,380
Minimum welfare basis for 2010	2,236	2,140	2,173	1,425
Employer's contributions				
Pension	20.0%	22.0%	11.0%	20.0%
Medical Insurance	10.0%	12.0%	4.0%	9.0%
Unemployment Insurance	1.0%	2.0%	0.4%	2.0%
Injury Insurance	0.3%	0.5%	0.25%	0.5%
Pregnancy Insurance	0.8%	0.5%	0.5%	0.8%
Housing Fund	12.0%	7.0%	5.0%	11.0%
Employee's contributions				
Pension	8.0%	8.0%	8.0%	8.0%
Medical Insurance	2.0%	2.0%	2.0%	2.0%
Unemployment Insurance	0.2%	1.0%	-	1.0%
Housing Fund	12.0%	7.0%	5.0%	11.0%

Trade Unions

Workers and staff of enterprises with foreign capital may organise trade unions in accordance with the law in order to conduct trade union activities and protect their rights and interests. The enterprises have to provide the necessary conditions for the activities of the trade unions [Law of the People's Republic of China on Foreign-Capital Enterprises].

Workers often belong to a unit or work group, and their benefits are governed by policies set for the unit.

Communist Party representatives still influence the implementation and maintenance of these personnel policies and practices.

It is of interest to note that Chinese workers and their managers emphasise “harmony” and the avoidance of open conflict. Trade unions play an intriguing role in the workplace that many Western foreign companies overlook. The unions do not concern themselves with collective bargaining, but instead assist in the implementation and interpretation of rules and practices that have been agreed by a “workers’ congress”. They may be instrumental in resolving labour-management issues in an enterprise, whether State-owned or a joint venture.

The trade union may conclude a collective contract with the enterprise on behalf of the employees in areas such as payment, work hours, rest and leave, labour safety and sanitation, insurance and welfare treatment.

Accounting

Accounting Regulations and Standards

A unified accounting system was implemented for business enterprises with effect in 2002. Further regulations were implemented for financial institutions in 2002 and for small enterprises in 2005. Ministry of Finance has supplemented these regulations by the issuance of specific accounting standards designed to converge with International Financial Reporting Standards (IFRS) and accounting interpretations. Collectively the regulations, standards, and interpretations are referred to as Chinese GAAP.

The accounting regulations and standards required for non-listed companies are as follows:

- Accounting Standards for Business Enterprises (original version effective 1 Jul 1993, while the revised version has been effective since 1 January 2007)
- Accounting Regulations for Business Enterprise (effective 1 Jan 2001)
- Accounting Regulation for Financial Institutions (effective 1 Jan 2002)
- Accounting Regulation for Small Enterprises (effective 1 Jan 2005)

The related accounting standards are as follows:

- Basic Standard (effective 1 Jul 1993)
- Post-balance Sheet Date Events (effective 1 Jan 1998, revised in 2003)
- Cash Flow Statement (effective 1 Jan 1998, revised in 2001)
- Changes in Accounting Policies, Accounting Estimates and Correction of Correction of Accounting Errors (effective 1 Jan 1999, revise in 2001)
- Investments (effective 1 Jan 1999, revised in 2001)
- Debt Restructuring (effective 1 Jan 1999, revised in 2001)
- Contingencies (effective 1 Jul 2000)
- Non-Monterey Transactions (effective 1 Jan 2000, revised in 2001)
- Leases (effective 1 Jan 2001)
- Borrowing Costs (effective 1 Jan 2001)
- Fixed Assets (effective 1 Jan 2002)
- Inventories (effective 1 Jan 2002)

New Accounting Standards

In February 2006, a basic standard and 38 new accounting standards were issued, supplemented by a further 33 implementation notes and 4 interpretation notes. These standards and interpretation notes (New GAAP) took effect on 1 January 2007 and are compulsory for public listed companies, centrally managed State-owned Enterprises, financial institutions, security investment funds and fund management companies. All large and medium sized entities are expected to adopt New GAAP by 2010, while this has only been required in certain areas (such as Shenzhen) to date. Other companies, including Foreign Investment Enterprises, are encouraged to adopt New GAAP, but have the option to continue to use the accounting regulations and standards mentioned in the preceding section.

The new standards are listed as follows:

Basic Standard	No. 21 Leasing
No. 1 Inventories	No. 22 Financial Instruments: Recognition and Measurement
No. 2 Long Term Equity Investments	No. 23 Transfer of Financial Assets
No. 3 Investment Properties	No. 24 Hedging
No. 4 Property, Plant and Equipment	No. 25 Insurance Contracts
No. 5 Biological Assets	No. 26 Reinsurance Contracts
No. 6 Intangible Assets	No. 27 Extraction of Oil and Natural Gas
No. 7 Exchange of Mon-monetary Assets	No. 28 Changes in Accounting Policies and Estimates and Correction of Errors
No. 8 Impairment of Assets	No. 29 Events after the Balance Sheet Date
No. 9 Employee Benefits	No. 30 Presentation of Financial Statements
No. 10 Enterprise Pension Funds	No. 31 Cash Flow Statements
No. 11 Share-base Payments	No. 32 Interim Financial Reporting
No. 12 Debt Restructuring	No. 33 Consolidated Financial Statements
No. 13 Contingencies	No. 34 Earnings per Share
No. 14 Revenue	No. 35 Segment Reporting
No. 15 Construction Contracts	No. 36 Related Party Disclosures
No. 16 Government Grants	No. 37 Financial Instruments: Presentation and Disclosures
No. 17 Borrowing Costs	No. 38 First Time Adoption of Accounting Standards for Business Enterprises
No. 18 Income Tax	
No. 19 Foreign Currency Translations	
No. 20 Business Combinations	

Since the adoption of New GAAP, the differences between IFRS and New GAAP have reduced significantly. Some common differences between IFRS and Chinese GAAP / New GAAP are given in the next section.

Differences between IFRS and Chinese GAAP

Some of the main differences between IFRS and Chinese GAAP encountered are given in the following table. Note that, as both IFRS and Chinese GAAP have evolved over time, the following list is indicative only.

	Chinese GAAP	IFRS
Long term assets		
Property, plant and equipment (PPE)	Historical cost basis mandatory. Subsequent revaluation is only allowed in restructuring of a State-owned enterprise.	Initially use historical cost basis. Subsequent revaluation is permitted, but must be applied for a whole class of assets and updated periodically.
Investment property	Not specifically addressed under old standards. In practice either held as inventory or other non-current assets at cost. Under New GAAP, where there is a readily determinable market value, the gain on transfer from inventory to investment property is taken to owners' equity, while losses are reflected in the income statement. Otherwise retained at cost.	Investment properties can be accounted at cost or fair value. Difference between fair value at date of transfer and carrying value is taken to income statement.
Amortisation of intangible assets	Amortisation is made over a period of not more than 10 years where useful lives are not determinable. Under New GAAP, similar to IFRS.	Impairment test is adopted where useful lives are not determinable.
Land use rights	Classified as intangible assets until commencement of construction of building. The cost is amortised over the beneficial term.	Classified as a prepaid lease.
Software costs	Classified as intangible assets. Under New GAAP, software may be capitalised with equipment in PPE.	These can be classified as intangible assets or PPE.
Pre-operating expenses	Capitalised as long-term prepaid expenses until commencement of commercial operations, when they are expensed. Similar to IFRS under New GAAP.	Expensed when incurred.
Research and development costs	Expensed when incurred. Similar to IFRS under New GAAP.	Development costs must be capitalised when certain criteria are met.

	Chinese GAAP	IFRS
Borrowing costs	Borrowing costs on loans designated for specific purposes must be capitalised as costs of the project.	Before 2009 there was a choice of expensing or capitalising borrowing costs on loans designated for specific purposes. Now similar to Chinese GAAP.
Reversal of impairment losses	Permitted under Old GAAP, New GAAP prohibits reversal of losses on long-term assets.	Only prohibits the reversal of impairment loss on goodwill.
Consolidation / investments		
Investment in subsidiaries	Accounted using the equity method in the Holding Company's entity accounts.	Accounted in accordance with IAS 39.
Jointly controlled entities	Equity method of accounting of the results. Under New GAAP, must adopt the cost method.	Proportionate consolidation preferred, while equity combination is permitted.
Investments (other than investments in subsidiaries and associated companies)	Short-term investments are accounted at the lower of cost and net realisable value. Long-term investments are accounted at cost. Under New GAAP, investments for which fair value can be reliably determined should be accounted for as FVTPL or available-for-sale financial assets.	Investments held to maturity are accounted initially at fair value and subsequently at amortised cost. Quoted investments held for trading are stated at fair value. Unquoted investments are stated at cost less provision for impairment. Investments held as available-for-sale financial assets are accounted at fair value.
Business combination	Purchase method is adopted. For combinations involving entities under common control, the pooling of interests method may be adopted.	Only the purchase method is permitted. Business combinations involving entities under common control are out of scope of IFRS 3 on business combinations.
Excess of cost of investment over net assets	This is shown as investment difference and amortised over the term of the joint venture but not exceeding 10 years. Credit balance is taken to capital reserve. Under New GAAP, similar to IFRS.	This is shown as goodwill. This is not amortised but tested for impairment. Negative goodwill is recognised in income statement.
Liabilities		
Government grants	Grants awarded for technological improvement are accounted in the capital reserve while those awarded as a subsidy are accounted as other income. Under New GAAP, similar to IFRS.	Grants awarded for capital expenditure are either accounted as deferred income or offset against cost. Those awarded as compensation for expenses/ losses incurred are accounted as other income.

	Chinese GAAP	IFRS
Income Statement		
Consumables and packaging materials	One-time write-off or write-off over 2 periods. Under New GAAP, write-off over estimated useful life.	Not mentioned.
Waiver of liabilities and donations	Recorded in capital surplus under old standards, or "Other Income" under New GAAP.	This is accounted as income in the income statement.
Employee benefits	There is no specific standard governing employee benefits. Under New GAAP, similar to IFRS.	There are specific guidelines in accounting for employee benefits which are granted under a defined benefit plan or defined contribution plan.
Staff and workers' bonus and welfare	This may be shown as appropriation from retained earnings, where the option/requirement to make appropriations under Chinese law is taken.	This is classified as an expense.
Gain from debt restructuring	This is credited to capital reserve. Under New GAAP, similar to IFRS.	This is credited to income.
Income tax	Income tax can be accounted under the tax payable method, deferral method or liability method. Deferred tax is required under New GAAP.	Income tax is accounted under the liability method.
Tax payable	Tax payable includes payables for income tax, business tax and VAT.	Tax payable only for income tax.

	Chinese GAAP	IFRS
Presentation and disclosure		
Derivatives	There is no specific standard. These are generally disclosed as off- balance-sheet items. Under New GAAP, similar to IFRS.	Governed by IAS 39.
Hedge accounting	There is no specific standard. Under New GAAP, similar to IFRS.	Governed by IAS 39.
Share-based payments	There is no specific standard. These are generally disclosed as off- balance-sheet items. Under New GAAP, similar to IFRS.	Governed by IFRS 2.
Presentation of minority interests	This is presented on the balance sheet separately from equity and liabilities, and in the income statement as a deduction before net profit. Under New GAAP, similar to IFRS.	This is presented on the balance sheet as a separate component within equity. In the income statement, this is neither an income nor expense item. Net profit is allocated between amounts attributable to equity holders of the parent and minority interests.
Related parties	State-controlled entities need not be regarded as related parties.	Some exemptions in revised standards issued in 2009.
Disclosure requirements for share capital	No similar disclosure requirements. Under New GAAP, similar to IFRS.	Disclosure of the following: <ul style="list-style-type: none"> • objectives, policies and processes for managing capital • what is regarded as capital • compliance with capital requirements • Consequences of non-compliance
Presentation of income statement	Specific format required for presentation of expenses in income statement which should be presented using function of expense method.	Option to present expenses by function or nature of expense in the income statement.
Cashflow statement	Presented using direct method with indirect method as supplement. Bank overdraft is excluded from cash and cash equivalents. Receipt of dividends/ interest is classified under investing activities while payment of dividends/ interest is classified under financing activities.	Option to use direct or indirect method of presentation. Bank overdraft is included in cash and cash equivalents. Receipt and payment of dividends/interest can be classified under operating, investing or financing activities.

Accounting Regulations for Small Enterprises

These accounting regulations were implemented in 2005 to present a simplified accounting framework for SMEs in order to reduce compliance costs and to allow growing enterprises to focus on internal control and business strategy.

These accounting regulations are not applicable for the following:

- Sole proprietorships or partnerships
- Members of groups required to comply with full Chinese GAAP
- SMEs that adopt the Accounting Systems for Business Enterprises

Additional regulations have been issued to set out the criteria for qualifying as small enterprises. The criteria are based on headcount, revenue and total assets for businesses in different industries:

Business	Headcount	Revenue (¥ Million)	Total Assets (¥ Million)
Industries	<300	<30	<40
Construction	<600	<30	<40
Wholesale	<100	<30	-
Retail	<100	<10	-
Transportation	<500	<30	-
Postal	<400	<30	-
Hotel and Food	<400	<30	-

The following are some of the major features or requirements when applying Accounting Regulations for Small Enterprises as compared to Accounting Regulations for Business Enterprises:

1. Only balance sheet and income statements need to be presented. Cashflow statements and statements of changes in equity are optional.
2. For notes to the accounts, only significant accounting policies and accounting estimates and significant transactions for the financial period need to be disclosed.
3. In accounting for tax, the tax payable method is adopted.
4. Actual cost is used for accounting for inventory whereas retail method and standard costs are permitted under Accounting Regulations for Business Enterprises.
5. Borrowing costs for specific purposes can be capitalised upon incurring a debt and need not be in line with the incurrence of capital expenditure.

In the event that SMEs are expected to breach the qualifying criteria in the near future, it would be advisable to adopt full Chinese GAAP rather than the simplified version for SMEs.

Intellectual Property Rights (IPR)

What is Intellectual Property?

The World Intellectual Property Organisation's definition of intellectual property refers to "creations of the mind" (inventions, literary and artistic works, symbols, names, images, and designs used in commerce). These can be classified under two main categories: Industrial Property [including inventions (patents), trademarks, industrial designs, and geographic indications of source] and Copyright (including literary and artistic works such as novels, poems and plays, films, musical works, artistic works such as drawings, paintings, photographs and sculptures and architectural designs). Costs and benefits in establishing, maintaining and enforcing the IPR may vary in each form.

Some of the most common forms of IPR in China are discussed below:

Patents

A patent is an exclusive right granted for an invention, which is a product or a process that provides a new way of doing something, or offers a new technical solution to a problem. It provides protection for the inventor of the patent and the protection is granted for a limited period, generally less than 20 years.

Patents are subject to the Patent Laws of China which came into effect on 1 July 2001 and subsequently revised in 2008 with an effective date of 1 October 2009. The administration of patent applications under the law is handled by the State Intellectual Property Office (SIPO).

Foreign enterprises can appoint agents authorised by the SIPO to handle their patent applications. The types of patents include patents for inventions, patents for utility models and patents for designs. The documents submitted for the application must be in Chinese. Patent rights for inventions will be granted after 18 months from the date of filing but this can be expedited upon request by the applicant. Patent rights for utility models and designs are granted after examination by the SIPO.

Patents can be assigned upon approval by the authorities. The duration of the patent rights for inventions is 20 years while that for utility models and designs is 10 years commencing from the date of filing of the patent application.

The owner of the patent rights may authorise another person to make the patented product or use the patented process through voluntary or compulsory licensing.

Trademarks

A trademark is a distinctive sign which identifies certain goods or services as those produced or provided by a specific person or enterprise. The trademark system helps consumers identify and purchase a product or service because its nature and quality, indicated by its unique trademark, meets their needs. A trademark provides protection to the owner of the mark by ensuring the exclusive rights to use it to identify goods and services, or authorise another to use it in return for payment. The period of protection varies, but a trademark can be renewed indefinitely beyond the time limit on payment of additional fees. Trademark protection also hinders the efforts of unfair competitors, such as counterfeiters who use similar distinctive signs to market inferior or different products or services.

Trademarks are subject to trademark laws and related regulations which came into effect on 1 December 2001. The administration of trademark registration is handled by the Trademark Office under the State Administration for Industry and Commerce (SAIC).

Foreign enterprises can appoint authorised trademark agents to handle their application for trademark registrations. The International Classification System is adopted whereby the goods and services are classified into 34 and eight categories respectively. A separate application is required if the same trademark is to be registered in different classes. Registered trademarks include product trademarks, service trademarks, collective trademarks and certification trademarks. Collective trademarks are registered in the name of a society, association or other organisations for commercial use by its members and indication of membership of the users. Certification trademarks are products or services which are controlled by an organisation and used by outside parties.

A registered trademark can be assigned or transferred upon submission of an application to the Trademark Office. A registered trademark will be valid for 10 years commencing from the date of approval of the registration. The validity can be extended for another 10 years upon renewal, commencing from the expiration of the preceding validity period. If no application is filed within six months before expiration, a grace period of six months may be granted. If no application is filed at the end of the grace period, the registered trademark is cancelled.

A trademark registrant may authorise other persons to use his trademark through executing a trademark licensing contract.

Copyrights

Copyrights have been acknowledged and protected in China since 1979. Domestically, copyright laws are mainly governed by the Copyright Law of the PRC and relevant implementing rules adopted and promulgated in 1990 and amended in 2001. The Copyright Law has been further revised in 2010 and the new law is effective from 1 April 2010. China has acceded to the major international conventions on protection of Copyrights. In 1980, China became a member of the World Intellectual Property Organisation (WIPO). It has patterned its IPR laws on the Berne Convention for the Protection of Literary and Artistic Works and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). These have given foreign copyright holders more safeguards in terms of protecting their rights and interests in China.

In the light of the Copyright Law of the PRC, the term of protection of the rights of authorship, alteration, and integrity of an author shall be unlimited. The term of protection of the right of publication, the right of exploitation and the right to remuneration in respect of a work of a citizen shall be the lifetime of the author and 50 years after his death, expiring on 31 December of the 50th year after his death. In the case of a work of joint authorship, the protection will expire on 31 December of the 50th year after the death of the last surviving author.

The term of protection for copyright including the right of publication, the right of exploitation and the right to remuneration, if the work was created to meet the requirement of the entity or in the course of employment, the legal person or entity without legal personality enjoys the copyright (except the right of authorship) which shall be 50 years, expiring on 31 December of the 50th year after the first publication of such work, provided that any such work that has not been published within 50 years after the completion of its creation shall no longer be protected under this Law. The copyright for a cinematographic, television, video-graphic or photographic work shall be 50 years, expiring on 31 December of the 50th year after the first publication of such work, provided that any such work that has not been published within 50 years after the completion of its creation shall no longer be protected under this Law.

To enforce copyright protection, an administrative system has been established within the government. Besides the approval of the local copyright administration bureau, the party registering the copyrights should apply for approval from the Copyright Protection Centre of China (CPCC), a social copyright management and social service organisation under the direct leadership of the General Administration of Press and Publication of the PRC (PPA) and the National Copyright Administration of China (NCAC).

Commonly, apart from the initial registration of copyrights, the sub-license, transfer, importation / exportation of copyrights shall be also registered and filed in the local copyright administration bureau and CPCC. With the approval certificate issued, the company may conduct the proposed copyrights transaction with domestic or overseas partners. Though the Berne Convention does not require any copyright registration, it is necessary to register the copyright for literary works in the PRC, in order to avoid any disputes with regard to ownership. Nevertheless, registration procedures are not compulsory in order to receive copyright protection, though seeking redress for any violations can be difficult without previous registration.

In order to handle cases of infringement of IPRs more efficiently, special intellectual property courts have been established in some cities and provinces. Within the Intermediate People's Court or the Higher People's Court or even the Supreme People's Court, there are separate intellectual property courts or divisions.

Protection against Infringement of Intellectual Property Rights

The protection of IPR is handled by SIPO of China which also handles disputes on IPR. Disputes over trademarks are handled by the Trademark Office or the Trademark Review and Adjudication Board under the State Administration of Industry and Commerce.

Infringements of IPR can be resolved through mediation of the parties involved. If mediation fails, then the infringement can be dealt with by way of legal proceedings or administrative procedures. Under the former, the aggrieved party may institute legal proceedings with the People's Court at the infringer's domicile or where the act of infringement took place. Under the latter, the parties involved may request the relevant administrative authorities at the infringer's domicile or where the act of infringement took place to handle the case. Foreign enterprises are required to appoint designated agents to seek redress for the infringement.

Asset Valuation

Certified Public Valuer

Only a Certified Public Valuer (CPV) can perform statutory asset valuation services. To be registered as a CPV, a person needs to pass the national CPV examination. Furthermore, he must satisfy the relevant working experience requirements. In general, all valuers should be employed by a Certified Public Valuation Firm. Only a Certified Public Valuation Firm that has been granted a licence may provide valuation services. There are two types of valuation licences. The first is the security valuation licence, which enables the firm to provide valuation services to any company, including public listed companies. The second is the common valuation licence indicating the firm may only provide valuation services to closely-held companies.

Reliability of Asset Valuation in China

Generally, the results of asset valuation cannot be totally relied on in China. Foreign investors should carry out appropriate due diligence work, including appointment of their own valuation professionals. However, the result of asset valuation for State-owned assets would be verified by the State-owned Assets Regulatory and Administrative Commission of the State Council (SASAC) or its provincial / municipal branches.

Requirement for an Asset Valuation

For the following transactions where State-owned assets are involved, the valuation of the assets should be appraised by a CPV:

- Auction sale
- Asset transfer
- Mergers and acquisitions (M&A)
- Privatisation & initial public offerings (IPOs)
- Setting up a subsidiary or joint venture (JV) with foreign investment enterprises (FIEs) or other entities
- Liquidation
- Asset lease to some private-owned or foreign-invested companies

According to the China Company Law and relevant regulations of the State Administration for Industry and Commerce, an asset valuation report is required if the investor wants to contribute assets in kind rather than cash as registered capital.

Other situations that normally require a valuation report are as follows:

- Asset auction and asset transfer
- M&A

- Establishment of a JV
- IPOs
- Establishment of an FIE or JV with other entities or individuals
- Rental of enterprise
- Mortgage for loan
- Asset collateral or guarantee

Cost of Asset Valuation

For valuation of State-owned assets, the recommended professional fee is recommended by the Fagajjiage[2009]No.2914 issued by Development and Reform Commission on 17 November 2009 and Zhongpingxie [2009]No.199 issued by China Appraisal Society on 4 December 2009.

Asset Base (¥ million)	Rate (%)
Below 1 (including 1)	0.9-1.5
1~10 (including 10)	0.375-0.625
10~50 (including 50)	0.12-0.2
50~100 (including 100)	0.075-0.125
100~1000 (including 1000)	0.015-0.025
Above 1000	0.01-0.02

The Professional charge rate is suggested as:

- Partner / Department Manager ¥260 - 2600 per person per hour
- Certified Public Valuers ¥200 - 2000 per person per hour
- Junior Valuers ¥100 - 1000 per person per hour

The actual fee payable is subject to the above guidelines and market rates.



Shanghai Lujiazui office, city scape

Hong Kong – indirect investment in China

Introduction

For more than a century and a half, Hong Kong has been serving as the gateway to mainland China. There is nowhere better than Hong Kong to obtain expertise, information and facilities needed to tap into the immense mainland Chinese market. On the other hand, Hong Kong is considered as the first choice for business establishments under the recent “going out” policy of China which encourages PRC enterprises to invest overseas.

Hong Kong is blessed with an invaluable natural resource: its geographical location. Flanking the mouth of the Pearl River Delta, Hong Kong is perfectly situated for trade with mainland China; the whole country is its natural hinterland.

China's entry to the World Trade Organisation and the development of increasingly competitive industries in the country have set the stage for even greater economic expansion. The Closer Economic Partnership Arrangement (CEPA) signed by Hong Kong and mainland China, which took effect at the beginning of 2004, provides Hong Kong with additional and exclusive mainland market access benefits.

The marriage of Hong Kong's world-class financial, marketing and technical expertise and sophisticated infrastructure with the mainland's rapidly developing manufacturing and services base has created a win-win situation. Mainland China is now Hong Kong's largest trading partner. Thousands of international companies involved in China trade have chosen to establish their beachhead in Hong Kong.

Unrivalled Location

Hong Kong has a prime location at the geographical and economic centre of Asia. Business executives in Hong Kong have fast and easy access to all the major markets in the Asia Pacific region. This central position is one of the key reasons for the city's popularity as a location for regional operations.

Hong Kong International Airport has been repeatedly voted as one of the best airports in the world. Daily non-stop flights are available to major cities in the Asia Pacific, North America, Europe, the Middle East and South Africa. From Hong Kong, one can fly to most countries in Asia within five hours.

Located on the southeast coast of mainland China, Hong Kong's hinterland is the largest market in the world, with 1.3 billion people. Corporate executives can travel back and forth to Beijing, Shanghai and other major Chinese cities in a single day while making their home in Hong Kong. For companies with manufacturing facilities in the Pearl River Delta area, their executives can go there by car within one to three hours.

Hong Kong's Experience

Hong Kong is the largest foreign investor in mainland China, accounting for about 42% of the national total with a cumulative value of US\$416 billion by the end of May 2010.

About five million Chinese workers are now working for Hong Kong companies in Guangdong Province.

For 2009, around 62% of Hong Kong's re-exports originate from, and 51% are destined for, mainland China.

Hong Kong's Networking Advantage

More than 250 mainland companies are listed on the Stock Exchange of Hong Kong and over 2,000 mainland-backed enterprises are registered in Hong Kong.

A total of 13 Hong Kong incorporated banks had business operations in Mainland China. Eight of them were operating through subsidiary banks incorporated on the Mainland. The 13 locally incorporated banks continued to expand their branch network, maintaining over 270 Mainland branches or sub-branches, either directly or through subsidiary banks.

World-class Infrastructure

The electricity grid is state-of-the-art and supply is more than adequate. Blackouts are not part of the vocabulary. Drinking water is readily and reliably available. Taxis operate around the clock. Mobile phones connect - even in tunnels and in the underground railway.

The telecommunications system is fully digitised. The government began de-regulating the industry as early as 1995 when it issued fixed-line telecommunications network service licences to four providers.

The mobile phone services market is very competitive with five operators and 10 networks. There are currently more than 190 Internet Service Providers in Hong Kong, more than five of which provide broadband connections. Household broadband penetration rate is more than 80% and have more than 9,000 public Wi-Fi access points.

The container port in and around Kwai Chung is privately-owned. In 2009, Hong Kong's total port cargo throughout was 242.97 million tonnes, making it one of the world's busiest ports.

Vessel turnarounds are among the fastest in the world and port charges are among the lowest worldwide. Container ships at terminal berths are routinely turned round in 10 hours or less, while conventional vessels working cargo at buoys are in port for only 1.8 days on average.

The state-of-the-art Hong Kong International Airport is just 23 minutes from the central business district by a high-speed rail link.

Rule of Law

The rule of law is fundamental to Hong Kong's success. All are equal before the law. Hong Kong's legal system is separate from mainland China's, and English common law prevails. The impartial judiciary is independent of the legislature and executive, and is drawn from several British Commonwealth jurisdictions as well as from Hong Kong itself. Cases are heard in English and/or Chinese.

Guarantees

These freedoms are guaranteed by the Basic Law, which came into effect when China resumed sovereignty of Hong Kong in mid-1997 and serves as Hong Kong's constitutional framework. Its underlying premises are best summed up as "One Country, Two Systems" and "No change for 50 years". Post-1997 Hong Kong inherited the laws of the former colony so that Hong Kong today continues to benefit from a stable and mature legal system, covering such business-critical areas as intellectual property.

Arbitration

Hong Kong has developed into one of the world's major arbitration jurisdictions since establishing its International Arbitration Centre in 1985. Its expertise in commerce, finance, shipping and construction provides the necessary pool of experienced professionals to handle dispute settlements. These include accountants, architects, bankers, engineers and insurance experts, as well as lawyers.

Tax System

Hong Kong taxes are among the lowest in the world, and its tax regime is simple and predictable.

The profits tax rate is the same for foreign and local companies - a low 16.5%. The actual tax bill is often even less after various deductions and depreciation allowances. There is no capital gains tax, withholding tax on dividends and interest or collection of social security benefits in Hong Kong.

The salaries tax rate is 15%, imposed only on all salary income of individuals derived in or from Hong Kong. The salaries tax is demanded on a yearly basis and can be paid in two instalments, usually between December and March.

There is neither sales tax nor VAT in Hong Kong. The limited tax base, combined with exceptionally low tax rates, makes Hong Kong's tax incidence much lower than in virtually all other developed economies.

There are special arrangements with the mainland that allow Hong Kong - based investors to avoid costly double taxation on a wide variety of major areas including shipping, aviation, land transport and personal taxation.

On 21 August 2006 the Governments of mainland China and the Hong Kong Special Administrative Region (SAR) signed a new comprehensive arrangement for the avoidance of double taxation on income and prevention of fiscal evasion (Comprehensive Arrangement) to replace the old tax memorandum signed between the two governments in 1998. The Comprehensive Arrangement creates advantages in using Hong Kong as an investment holding vehicle for investment in mainland China.

The general provisions of the new Comprehensive Arrangement signed between PRC and Hong Kong in August 2006 are summarised below:

	PRC	Hong Kong
Article 1:	Tax Resident ⁷³	Tax Resident ⁷⁴
Persons Covered	Tax resident of both PRC and Hong Kong	
Article 2 & 3: Taxes Covered (Excluding tax penalties and interest)	<ul style="list-style-type: none"> • Individual Income Tax • Foreign Investment Enterprise Income Tax • Any other identical or substantially similar taxes imposed after the date of signature of the Comprehensive Arrangement 	<ul style="list-style-type: none"> • Profits Tax • Salaries Tax • Property Tax • Any other identical or substantially similar taxes imposed after the date of signature of the Comprehensive Arrangement

⁷³ Pursuant to Article 4 of the Comprehensive Arrangement, a PRC tax resident means any person who is liable to PRC tax by reason of his domicile, residence, place of head office, place of effective management or any other criterion of a similar nature.

⁷⁴ Pursuant to Article 4 of the Comprehensive Arrangement, Hong Kong tax resident means any individual who ordinarily resides in Hong Kong or stays in Hong Kong for more than 180 days during a year of assessment or for more than 300 days in 2 consecutive years of assessment, one of which is the relevant year of assessment, or a company incorporated / constituted in Hong Kong; or a company incorporated /constituted overseas but normally managed or controlled in Hong Kong.

The Hong Kong Inland Revenue Department (IRD) has stated its interpretation on "ordinarily resides" and "permanent establishment" in Departmental Interpretation and Practice Notices No. 44 (revised)

	PRC	Hong Kong
Article 5: Permanent Establishment	<p>Permanent Establishment is a fixed place of business through which the business of an enterprise is wholly or partly carried on, including:</p> <ul style="list-style-type: none"> • A place of management • A branch • An office • A factory • A workshop • A mine, an oil or gas well, a quarry or any other place of extraction of natural resources • A building site, a construction, assembly or installation project or supervisory activities that last for more than 6 months • The furnishing of services, including consultancy services, by an enterprise of One Side directly or through employees or other personnel engaged by the enterprise and continues (for the same or a connected project) in the Other Side for a period or periods aggregating more than 183 days within any 12-month period • A person other than an agent of an independent status, is acting in One Side on behalf of an enterprise of the Other Side, and the person has, and habitually exercises, an authority to conclude contracts in the name of the enterprise 	
Article 21: Elimination of Double Taxation	<p>Tax paid in Hong Kong is allowed to be claimed as a credit against PRC tax imposed. However the amount of the credit shall not exceed the amount of PRC tax in respect of that item of income computed in accordance with PRC tax laws and regulations</p>	<p>Subject to the provision of the Hong Kong tax laws, tax paid in PRC is allowed to be claimed as a credit against the Hong Kong tax imposed. However the amount of the credit shall not exceed the amount of Hong Kong tax in respect of that item of income computed in accordance with the Hong Kong tax laws and regulations</p>
Article 24: Exchange of Information	<p>PRC and Hong Kong competent authorities may exchange information (in particular, information for the prevention of fiscal evasion) that is necessary for carrying out the provisions of the Comprehensive Arrangement or the domestic laws concerning taxes covered by the Comprehensive Arrangement</p>	
Article 26: Effective Date	<p>Income derived in taxable years beginning on or after 1 January in the calendar year following the year in which the Comprehensive Arrangement comes into force (i.e. taxable years begin on or after 1 January 2007)</p>	<p>Income derived in year of assessment beginning on or after 1 April in the calendar year following the year in which the Comprehensive Arrangement comes into force (i.e. years of assessment beginning on or after 1 April 2007)</p>

Pursuant to the Comprehensive Arrangement, the PRC withholding tax rates for a Hong Kong tax resident on rental is 10%, on interest and royalty is 7%; and on dividend is 10% (5% for companies holding at least 25% of the capital of the PRC company).

A second protocol was signed by the two governments on 30 January 2008 to clarify the position on the following which the IRD and the State Administration for Taxation previously held different views and interpretation:

- Permanent establishment of Hong Kong companies providing services in mainland China
- Interpretation of companies holding immovable property
- 25% shareholding threshold for capital gains exemption

This protocol will take effect after ratification by both governments.

Clean Government

Hong Kong is one of the most corruption-free economies in the world. Cronyism, influence-peddling and bribery receive zero tolerance in the territory. This is due to its strong public administration as well as its Independent Commission Against Corruption (ICAC). Since it was founded in 1974, the ICAC has promoted a strong anti-corruption culture in Hong Kong. Its success has been such that several countries around the world, including Australia, have modelled their graft-fighting agencies on Hong Kong and consult the ICAC regularly.

The clean government ensures that companies are free to pursue their business interests on a level playing field without worrying about corruption.

World's Freest Economy

Free trade is the life-blood of Hong Kong. As a result, it is one of the most open, externally-orientated economies in the world.

The Heritage Foundation and the Wall Street Journal (which produce an index of economic freedom annually), the Washington-based Cato Institute as well as the Fraser Institute of Canada have consistently rated it as the world's freest economy.

Hong Kong embraces globalisation of trade and services and is an active participant in international organisations that promote such activities. Hong Kong's concept of free trade is based on the following:

- The cornerstone of the economy rests on free enterprise, free trade and free markets open to all
- No barriers to trade - no tariffs, no quotas, no exceptions
- No restrictions on investments inward or outward
- No foreign exchange controls
- No nationality restrictions on corporate or sectorial ownership

Hong Kong enjoys a constitutionally-guaranteed free press and freedom of speech. About 40 newspapers and 700 periodicals are published in Chinese and English in a city that is home to about 130 media organisations. There is no government censorship and both local and overseas publications circulate without hindrance.

All the top international news organisations maintain a presence in the territory and many trans-continental publications print their Asian editions here. As a result, journals such as the International Herald Tribune, the Financial Times, USA Today and Nihon Keizai Shimbun are available first thing in the morning.

Hong Kong is one of the most Internet-savvy cities in the world. It rapidly adopts the latest wireless technology. The government does not seek to censor Internet access through mandatory filtering software or other measures.

Doing Business with China using CEPA

CEPA is a World Trade Organisation (WTO)-compliant free trade agreement. Strategically, the CEPA opens a new chapter in cross-border trade and investment between Hong Kong and the Mainland and it reinforces Hong Kong's role as a bridge between China and the rest of the world.

The CEPA was signed in 2003 by the Central People's Government and the Government of the Hong Kong SAR and came into full effect from 1 January 2004. It provides preferential access to the mainland market and reduced tariffs for the export of certain finished goods and services by certain enterprises and individuals in Hong Kong, whether local- or foreign-owned.

The CEPA is an open and developing platform. The seventh phase has offered the following benefits to Hong Kong businesses:

- **Trade in services**
The Mainland has lowered capital requirements for Hong Kong-based companies and access to 14 new services areas has been expanded. Cumulatively more than 1,350 applications for "Certificate of Hong Kong Service Supplier" have been approved.
- **Individually-owned stores**
Hong Kong permanent residents who are Chinese citizens will be allowed to set up individually-owned stores (within allowed scopes) in any PRC province or city without being subject to the approval procedures applicable to foreign investors.
- **Mutual recognition of professional qualifications**
The respective competent authorities or professional bodies will further discuss the mutual recognition of certain professional qualifications.
- **Goods liberalisation measures**
The number of categories of Hong Kong products eligible for tariff-free treatment has increased significantly since the implementation of CEPA. Cumulatively more than 55,000 "Certificates of Hong Kong Origin" have been issued.

Singapore - indirect investment in China

Overview

Singapore's strategic location and political stability make it an attractive location for many foreign businesses which target the Asian markets.

Touted as the gateway to Asia, Singapore is situated within ASEAN (Association of Southeast Asian Nations) and can access a market size of 2.8 billion people within 7 hours' flight time. As a cosmopolitan and international city with an appreciation of both Western and Asian cultures, Singapore often plays a unique role in connecting the East and West.

Singapore's reputation as the business city of choice is growing rapidly. It is known for its excellent business and social infrastructure and political stability, and has economic ties with many of the world's economies. She has consistently been voted as one of the world's best business locations and has been bestowed accolades such as the country that is the Most Competitive Globally, after Hong Kong (Institute for Management Development, 2010); and the Most Globalised Nation in the World (AT Kearney and Foreign Policy magazine globalisation index, 2007). The Republic has also been ranked the world's easiest place to do business (Doing Business 2010 Report, World Bank) and Least Corrupt Country in Asia (PERC, 2010).

According to 2009 statistics, Sino-Singapore bilateral trade totalled US\$52.05 billion. China is the third largest trading partner of Singapore. Singapore is China's third largest foreign investor and the largest among the ASEAN countries. In the first five months of 2010, total bilateral trade between China and the ASEAN nations reached US\$112 billion, an increase of nearly 58 per cent, meaning the ASEAN nations have collectively surpassed Japan to become China's third largest trading partner.

In recent years, Singapore has also grown in importance as a springboard for businesses to expand into China. By the end of 2009, Singapore's Foreign Direct Investment ("FDI") in China reached US\$41.5 billion. China is Singapore's largest FDI destination. Some of the reasons businesses favour Singapore as a base for investing in China include:

Pro-business Environment

The Singapore Government is highly attuned to the needs of businesses and many multinational corporations have been attracted to base their regional headquarters on the island. The Singapore Government takes an active role in encouraging the growth of these businesses by granting appropriate incentives, providing assistance in identifying or exploring significant business opportunities and offering a host of resources for them to venture outside of Singapore.

International Enterprise (IE) Singapore is a government agency promoting the overseas growth of Singapore-based enterprises and international trade. As such, we have in place financing schemes to help Singapore incorporated companies expand globally. This includes:

- Export Coverage Scheme: a trade credit insurance programme to protect against buyer's non payment risk
- Loan Insurance Scheme: a scheme helping companies gain access to trade financing by insuring them against insolvency
- Internationalisation Finance Scheme: a scheme helping companies obtain financing for overseas expansion through a system of co-sharing risk between IE Singapore and Participating Financial Institutions.

Double Taxation Agreement

A Double Taxation Agreement (DTA) is an agreement entered into between two countries seeking to avoid double taxation on the same income. Relief may be given in the form of tax credit, tax exemption, reduced tax rate or relief by deduction.

Singapore concluded a DTA with China in April 1986. A revised DTA was concluded in July 2007. Under the revised Singapore-China DTA (effective from 1 January 2008), the withholding tax rates for dividend, interest and royalty are as follows:

- Dividend 5% if the investment in the China company is at least 25%
 10% for other cases
- Interest 7% for interest paid to any bank or financial institution
 10% for other cases
- Royalty 6% applies to lease payments for any industrial, commercial or scientific
 equipment
 10% for other cases

Although Singapore does not tax dividend income received from China provided certain conditions are met, it is still good news that Singapore is able to retain the tax sparing provision on dividend income in the revised Singapore-China DTA.

Tax sparing means that the Inland Revenue Authority of Singapore will recognise the potential tax liability that would have been paid by the China company and allow a tax credit to the Singapore company even though the China company is exempted from tax in China because of tax incentives granted by the Chinese Government.

A second Protocol for the DTA between Singapore and China was ratified in December 2009. One of the changes in the new protocol (which takes effect from 1 January 2010) relates to the elimination of double taxation on dividends, whereby a resident of China deriving dividend income from Singapore will be given credit for the underlying tax paid if it owns 20% (previously 10%) of the shares of the Singapore company.

For Singapore staff working in China, the DTA also provides which country has the right to tax the employment income such that the same employment income is not taxed twice.

Tax Incentives

The Singapore Government offers a host of other tax incentives to encourage businesses to invest overseas in promising markets such as China. They include:

(a) Headquarters Programme

Singapore holding companies that offer corporate support and headquarter-related services to their regional companies can enjoy reduction in the corporate tax rate for specified income, if they meet the qualifying conditions.

(b) Approved Holding Companies

Approved holding companies in Singapore enjoy certainty for a period of five years from the date of approval, that their gains derived from the sale of shares in approved subsidiary companies will be treated as capital gains and not subject to tax, so long as qualifying conditions are met.

(c) Double Tax Deduction Scheme for Market Development / Double Tax Deduction Scheme for Overseas Investment Development

These two schemes allow approved companies seeking to expand their overseas markets and investments to deduct eligible expenses incurred for approved projects twice against their taxable income.

Other tax incentives available include the Further or Double Deduction for Overseas Investment Development Expenditure and the Overseas Investment Incentives.

World-class Infrastructure

Singapore's telecommunication and transport networks are very well-developed and include satellite, telex, facsimile, electronic mail, and data transmission and direct dial telephone services to all the world's major cities. She is one of the most competitive telecommunications hubs in the Asia Pacific region and among the most wired countries in the world with Internet and mobile devices such as mobile phones and notebook computers almost ubiquitous in the small island city-state.

Singapore's Changi Airport is widely acknowledged as one of the best airports in the world by air travellers. Linked to more than 200 cities in 60 countries worldwide, it serves over 90 international airlines, which operate 5,100 flights per week to and from Singapore. Changi Airport has established itself as a major aviation hub in the Asia Pacific region. Ever since Terminal 3 began operations in January 2008, Changi Airport has an annual handling capacity of more than 70 million passengers. In particular, there are more than 210 flights per week to and from the major cities in China, such as Beijing, Shanghai, Tianjin, Guangzhou, Chengdu, Fuzhou, Shenzhen, Hangzhou, Nanjing, Xian and Xiamen, which can be reached within seven hours by flight from Singapore.

As a gateway to Asia, Singapore offers abundant advantages to the global maritime industry. Being one of the world's busiest ports for shipping tonnage and container handling, Singapore handled a record 28.4 million containers in 2010, reinforcing its position as the world's busiest port. Today, it is also a major port of call for some 200 shipping lines with links to more than 600 ports worldwide. Located at the crossroads of major trade and shipping routes, Singapore is an international maritime centre with a vibrant cluster of maritime activities and attracts, on average, some 140,000 vessel calls annually.

Premier Financial Hub

Singapore is recognised as one of the liveliest financial hubs in Southeast Asia and its financial sector is based on the highest regulatory and prudential standards. Singapore is well-plugged internationally with major financial centres in the USA, Europe and Asia. The presence of these financial institutions, including many of the world's largest and most reputable, gives businesses a wide range of options, from commercial bank loans and hedge funds to private equities, for their various funding requirements. Businesses may find that financiers prefer using Singapore-based companies as funding vehicles to invest in China. This is because Singapore's legal system provides financiers with greater certainty in enforcing their security interests such as guarantees, mortgages, charges and debentures.

The active capital market in Singapore also offers businesses a good avenue to raise funds for investment or expansion. Singapore's adoption of international standards of disclosure and corporate governance has ensured a well-regulated trading environment for both local and international investors. A listing on the Singapore Exchange also enhances the corporate profiles of companies, thus facilitating the fund-raising process. The Singapore Exchange is home to the listing of leading companies in Singapore and Asia, including many from China.

Excellent Professional and Skilled Labour Force

Singapore has an excellent professional and skilled labour force as a result of the government's continual investment in education, training and emphasis on capabilities and innovation and educational facilities. They are exposed to both Western and Asian cultures, and are proficient in English and Asian languages. Singapore executives and workers are also accustomed to the corporate governance culture of multinational corporations, thus increasing its attractiveness as a business location for these corporations seeking to expand in Asia, including China.

Conclusion

The success of Singapore as a location for investing in China is the result of a combination of several factors such as an efficient government, a pro-business environment and a highly-skilled labour force. The availability of a host of tax incentives and financial assistance for business development and investment in China also contribute to Singapore's attractiveness as a place for businesses and high value investments. In addition, Singapore's excellent telecommunications systems, well-developed financial sector, world-class transportation and information technology systems, also make her an excellent choice as a springboard into the Asian region, including China.



Gate of Divine Prowess

Listing in China, Hong Kong and Singapore

China

China has two main-board stock exchanges, which are located in Shanghai (opened in December 1990) and Shenzhen (opened in July 1991). Both exchanges are governed by the China Securities Regulatory Commission (CSRC).

The Shenzhen Stock Exchange also has a Small and Medium Enterprise Board (SME Board) which was formally established in June 2004 and provides a platform for small and medium enterprises to access the capital market. The SME Board of the Shenzhen Stock Exchange constitutes part of the Main Board and the entry requirements for the SME Board are the same as those for the Main Board. As at March 2008, about 225 companies were listed on the SME Board with total market value of about ¥ 1,021 billion.

Two classes of shares, namely A-shares and B-shares, are traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange. A-shares are ¥-denominated shares and include non-tradable shares, such as founders' shares, and tradable shares. A-shares are traded in ¥ in contrast to B-shares which are ¥-denominated shares traded in foreign currencies. Beginning in December 2002, foreign investors were able to trade in the A-share market, previously open only to Chinese investors, when China introduced the Qualified Foreign Institutional Investors (QFII) scheme. In January 2006, China opened its capital markets further by announcing that in addition to the QFIIs, foreign strategic investors could also invest in tradable A-shares.

China's Second Board

China's long-awaited growth enterprise board (Second Board) was launched in Shenzhen Stock Exchange on 30 October 2009. It served as a new direct financing platform for innovative companies. China's securities regulator released new guidelines for it.

The regulations state that companies seeking a listing on the new Nasdaq-like second board should have net assets of at least ¥ 20 million. They also note that companies applying for a listing be open for business for more than three years.

The China Securities Regulatory Commission also requires that the issuer has remained profitable in the two most recent consecutive years prior to its application. The prospective issuer must also have combined profits of at least ¥ 10 million. Alternatively the issuer should report profits of at least ¥ 5 million for the most recent year on revenues of at least ¥ 50 million and have annual revenue growth of at least 30% in the previous two years.

Stock Index Futures

As the continuous expansion of China's securities market scale and the growth of institutional investors, and the demands for the stock market to avoid the risk of unilateral giant change increasingly urgent, the introduction of stock index futures were also included in the agenda. On 26 March 2010, China Financial Futures Exchange announced the stock index futures will be formally launched on 16 April.

Apart from Shanghai and Shenzhen two stock exchanges, China has four future exchanges, they are China Financial Futures Exchange opened in 2006, Shanghai Futures Exchange opened in 1999, Zhengzhou Commodity Exchange opened in 1990, Dalian Commodity Exchange opened in 1993.

Hong Kong

Hong Kong has developed into an internationally-recognised financial centre and has provided many Asian and multinational companies with fund-raising opportunities through its stock exchange.

The Hong Kong Stock Exchange (HKSE) operates two markets on which companies may choose to list their shares: the Main Board and the Growth Enterprise Market (GEM). The two markets are of equal standing and cater to the different needs of companies and investors.

The criteria for listing in these two markets are set out in the table on page 103.

Companies that do not have a performance track record to qualify for listing on the Main Board can consider listing on the GEM. This enables emerging businesses to capitalise on the growth opportunities in the region by raising funds for expansion through a well-established market and regulatory infrastructure. The GEM also gives investors, particularly venture capitalists, an opportunity to participate in the growth of these emerging businesses.

Singapore

1. Profit and Moratorium Criteria

(a) Singapore Exchange - Main Board

A company, foreign-or locally-incorporated, may undertake a primary or secondary listing on the Main Board of the Singapore Exchange (SGX) via any of the three routes set out in the table on page 103.

(b) On 26 November 2007, the SGX launched Catalyst, which is the first sponsor-supervised listing platform in Asia for fast growing local and international companies. Catalyst is the transformed SESDAQ (Stock Exchange of Singapore Dealing and Automated Quotation System), SGX's then second board.

The key feature of Catalist is its sponsor-supervised market model. Companies on Catalist are brought to list by approved sponsors. Companies' track records are no longer required by SGX. Instead, sponsors decide if the listing applicant is suitable to be listed.

To remain listed after IPO, companies must engage a sponsor at all times. Sponsors are to advise listed companies on rule compliance, review their public documents and whistle-blow to SGX when there is an affirmed or suspected breach of rules.

2. Business

- The company must be a going concern or successor of a going concern.
- A company (other than investment companies) whose assets consist of wholly/substantially cash or short-term securities will not normally qualify.

3. Financial Position and Liquidity

- The listing company must be in a healthy financial position with positive cash flow from operating activities.
- No outstanding debts shall be owed to the listing company by the directors, substantial shareholders or companies controlled by them prior to listing.
- Revaluation surplus arising from the revaluation of plant and equipment should not be capitalised or used to calculate the net tangible assets per share.

4. Quality and Integrity of Management

- Great emphasis is placed on the experience, expertise, character and integrity of the company's directors, management and shareholders.

5. Potential Conflict of Interests with Directors, Shareholders and Associates

Conflict situations should be resolved or eliminated prior to listing. Conflicts of interest include situations in which interested persons:

- Have business transactions with the company
- Lend to or borrow from the company
- Lease property to or from the company
- Have interests in companies that are competitors, suppliers or customers of the company

The SGX may accept a proposal to resolve or eliminate such conflict situations within a reasonable period after listing.

China	Hong Kong		Singapore	
Main Board A/B Share	Main Board	GEM	Main Board	Catalist
Quantitative Criteria				
<p>(1) Positive net profit and cumulative profits exceeding ¥ 30m for the last 3 financial years; net profit being the lower of net profit before and net profit after extra-ordinary items;</p> <p>(2) Cumulative cash flows from operations exceeding ¥ 50m for the last 3 financial years; or cumulative operating revenue exceeding ¥ 300m for the last 3 financial years;</p> <p>(3) Pre-listing capital of at least ¥ 50m;</p> <p>(4) Proportion of intangible assets (excluding land use rights, aqua-farming rights and mining rights, etc) as at the most recent financial year end does not exceed 20% of net assets;</p> <p>(5) There are no accumulated losses for the most recent financial year.</p>	<p>Route 1 Net profit of HK\$50m in the last 3 full financial years (HK\$20m in the most recent year and an aggregate of HK\$30m in the 2 preceding years) and market capitalisation of at least HK\$200m.</p> <p>Route 2 Market capitalisation of at least HK\$4bn at the time of listing and at least HK\$500m in revenue arising from the principal activities for the most recent audited financial year, and at least 1,000 shareholders at the time of listing.</p> <p>Route 3 Market capitalisation of at least HK\$2bn at the time of listing and at least HK\$500m in revenue arising from the principal activities for the most recent audited financial year, and positive cash flows from operations of at least HK\$100m in total for the 3 preceding financial years.</p>	<p>Minimum market capitalisation of HK\$100m at the time of listing. Positive cash flows from operating activities in the ordinary course of business before change in working capital and taxes paid of at least HK\$20m in aggregate for the two financial years immediately preceding the issue of the listing document.</p>	<p>Route 1 Cumulative pre-tax profit of at least S\$7.5m over the last 3 consecutive years, with a pre-tax profit of at least S\$1m in each of those 3 years.</p> <p>Route 2 Cumulative pre-tax profit of at least S\$10m over the last 1 or 2 years.</p> <p>Route 3 Market capitalisation of at least S\$80m at the time of the initial public offering, based on the issue price.</p>	<p>There is no quantitative entry requirement for listing on Catalist. Listing applicants need to engage a sponsor who will assess the suitability of the company for listing and thereafter, prepare them for listing.</p>

China	Hong Kong		Singapore	
Main Board A/B Share	Main Board	GEM	Main Board	Catalist
Moratorium of Shareholders				
Management shareholders: 6 months after resignation and 12 months from the date of listing. Founding shareholders (promoters, controlling shareholders and pre-IPO investors): 36 months from the date of listing.	Controlling shareholders: 6-month moratorium generally required; also the second 6-month period after listing if the intended disposal would result in them ceasing to be controlling shareholders.	Controlling shareholders: 6-month moratorium generally required; also the second 6-month period after listing if the intended disposal would result in them ceasing to be controlling shareholders.	Routes 1 and 2 Not allowed to sell entire shareholding for 6 months after listing. Route 3 Not allowed to sell entire shareholding for 6 months after listing and 50% for the next 6 months.	Not allowed to sell entire shareholding for at least 6 months after listing and 50% for the next 6 months.
			Moratorium for substantial shareholders who acquired the shares of the company less than 12 months before the date of the listing application: a portion of the shares equivalent to the shareholders' original cost of investment is not subject to moratorium.	
Track Record				
No significant change in principal business, Board of Directors, top management and controlling party during the most recent 3 financial years.	3 full financial years under substantially the same management. Ownership continuity and control for at least the most recent audited financial year. The exchange may accept a shorter trading record period and/or may vary or waive the profit or other financial standards requirement under certain circumstances.	2 years of trading record under substantially the same management. Continuity of ownership and control throughout the full financial year immediately preceding the issue of the listing document and up to the date of listing.	Routes 1 and 2 Under substantially the same management throughout the period for which the profit test applies.	Not applicable.

China	Hong Kong		Singapore	
Main Board A/B Share	Main Board	GEM	Main Board	Catalist
Minimum Public Float				
<p>More than 25% of issued share capital</p> <p>More than 10% of issued share capital if the number of shares after public flotation is 400m or more.</p>	<p>25% of issued share capital</p> <p>If expected market capitalisation is over HK\$10bn at the time of listing, the exchange may accept a lower percentage of between 15%-25%.</p>	<p>25% of issued share capital</p> <p>The exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalisation at the time of listing of over HK\$10bn.</p> <p>There are significant amendments to GEM Listing Rules which are effective on 1 July 2008.</p>	<p>25% of issued share capital if the market capitalisation is less than S\$300m.</p> <p>20% of issued share capital if the market capitalisation is over S\$300m but less than S\$400m.</p> <p>15% of issued share capital if the market capitalisation is over S\$400m but less than S\$1bn.</p> <p>12% of issued share capital if the market capitalisation is more than S\$1bn.</p> <p>The number of shareholders regardless of market capitalisation must be at least 500.</p>	<p>Minimum 15% of issued share capital.</p> <p>Number of shareholders to be at least 200.</p>
Results Announcement				
<p>Publish annual reports within 4 months; half-yearly reports within 2 months; and other quarterly reports within 1 month after the end of the relevant financial period.</p>	<p>Publish annual reports within 4 months, and half-yearly reports within 3 months after the end of the relevant financial period.</p>	<p>Publish annual reports within 3 months, and half-yearly/quarterly reports within 45 days after the end of the relevant financial period.</p>	<p>Listed companies with market capitalisation of above S\$75m must announce quarterly financial results within 45 days of the quarter's end and full financial year results within 60 days of the end of the financial period.</p> <p>Listed companies with market capitalisation of up to S\$75m must announce first half results within 45 days of the end of the financial period, and full financial year results within 60 days of the end of the financial period.</p>	

Relevant Websites

The following are some useful websites related to doing business in China:

General Reference

The Central People's Government of China www.gov.cn

Macroeconomics

National Development and Reform Commission www.sdpc.gov.cn

China Economic Information Network www.cei.gov.cn

Commerce and Investment

Ministry of Commerce www.mofcom.gov.cn

State Administration for Industry and Commerce www.saic.gov.cn

State Administration of Taxation www.chinatax.gov.cn

State Administration of Foreign Exchange www.safe.gov.cn

State Intellectual Property Office www.sipo.gov.cn

China Customs www.customs.gov.cn

Finance

Ministry of Finance www.mof.gov.cn

The People's Bank of China www.pbc.gov.cn

China Securities Regulatory Commission www.csrc.gov.cn

Other Useful Information

Ministry of Foreign Affairs www.fmprc.gov.cn

Ministry of Justice www.legalinfo.gov.cn

Ministry of Human Resources and Social Security www.mohrss.gov.cn

Ministry of Industry and Information Technology www.miit.gov.cn

National Bureau of Statistics of China www.stats.gov.cn

Governmental and Public Sector Tendering Notices www.chinabidding.com.cn

Investment in Beijing

Beijing Investment Promotion Bureau
Beijing Municipal Commission of Commerce
Beijing Statistical Bureau

www.investbeijing.gov.cn
www.bjmbc.gov.cn
www.bjstats.gov.cn

Investment in Shanghai

Shanghai Foreign Investment Development Board
Shanghai Foreign Economic Relations and Trade
Shanghai Municipal Statistics Bureau

www.fid.org.cn
www.smert.gov.cn
www.stats-sh.gov.cn

Investment in Shenzhen

Invest Shenzhen
Shenzhen Statistical Bureau

www.szinvest.gov.cn
www.sztj.com

Investment in Tianjin

Tianjin Economic-Technological Development Area
China Tianjin Commerce
Tianjin Statistical Bureau

www.investteda.org
www.tjcoc.gov.cn
www.stats-tj.gov.cn

International Trade Promotion

China Council for the Promotion of International Trade

www.ccpit.org.cn

About RSM International

RSM International is a worldwide network of independent accounting and consulting firms. RSM International and its member firms are separate and independent legal entities. RSM International does not itself provide accounting or consultancy services. All such services are provided by members practising on their own account.

RSM is represented by independent members firms in over 80 countries and brings together the talents of over 32,000 individuals in over 700 offices worldwide.

The network's total fee income of US\$3.8bn places it amongst the top six international accounting organisations worldwide. Affiliate member firms are driven by a common vision of providing high quality professional services, both in their domestic markets and in serving the international professional service needs of their client base.

RSM International is a member of the Forum of Firms. The objective of the Forum of Firms is to promote consistent and high quality standards of financial and auditing practices worldwide.

Contact

For more information, please contact:

RSM International Executive Office

2nd Floor, 11 Old Jewry
London EC2R 8DU

T: +44 (0) 20 7601 1080

F: +44 (0) 20 7601 1090

W: www.rsmi.com

Jean Stephens, CEO

T: +44 (0) 20 7601 1080

E: jean.stephens@rsmi.com

RSM Asia Pacific Regional Office

Level 8, Rialto South Tower
525 Collins Street
Melbourne VIC 3000
PO Box 248, Collins Street West, VIC 8007

T: +61 3 9286 1862

F: +61 3 9286 1999

W: www.rsmi.com.au

Neil Hough, Regional Director

T: +61 3 9286 1862

E: neil.hough@rsmi.com.au

Lynnette McGowan, Regional Coordinator

T: +61 3 9286 1862

E: lynnette.mcgowan@rsmi.com.au

About RSM China CPAs

RSM China Certified Public Accountants (hereafter referred to as “RSM China”) was established by the merger of four CPA firms, whose pedigree derives from the Ministry of Finance, the State Administration of Tax, Ministry of Power, and the Ministry of Aerospace. Today RSM China is the largest CPA firm in China outside of the Big 4 with offices in 19 cities with a history dating back to 1981. RSM China CPAs is the China mainland member firm of RSM International. RSM International is currently the 6th largest international accounting network globally.

Today RSM China has some 3,000 staff and 191 partners, including approximately 1,600 Certified Public Accountants (CPA), Certified Public Valuators (CPV), Certified Tax Agents (CTA), Land Valuators (LV) and Certified Real Estate Appraisers (CREA). Our professional services include Management Consulting Services (MCS), Tax & Legal Services (TLS), Audit Business and Assurance Service (ABAS), and Valuation Services (VS).

The firm’s areas of expertise include Management Consulting Services (MCS), Tax & Legal Service (TLS), Audit Business and Assurance Service (ABAS) and Valuation Service (VS). RSM China CPAs also provide outsourced financial and compliance services to newly established enterprises.

RSM China through its affiliation with RSM, offers a truly international service. This, together with a traditional approach of providing a structured, personalised service to all clients, makes RSM China an attractive and effective alternative to the “Big Four”, particularly in the following areas:

- Partners’ personal attention to clients’ needs
- Prompt response to clients’ enquiries
- Competitive and flexible pricing
- Emphasis on value-added services

The firm’s client base includes more than 100 listed companies, 41 super-large State-owned Enterprises, and many foreign invested enterprises.

The firm’s aim is to continue to develop with our clients in China to be able to offer high quality services and advice based on our combined wealth of experience.

Contact

For more information, please contact:

RSM China CPAs

8-9/F Corporate Square, 35 Financial Street
Xicheng District, 100140, Beijing

T: +86 10 8809 4180

T: +86 10 8809 1640

F: +86 10 8809 1199

E: international@rsmchina.com.cn

W: www.rsmchina.com.cn

Contact Partners:

Lily Li, Head of International Department

T: +86 10 8809 5826

E: lixiuqing@rsmchina.com.cn

Mark Wilson, Audit and Outsourcing

T: +86 10 8809 5815

+86 10 8809 1640 x 101

E: mark.wilson@rsmchina.com.cn

Charles GONG, Tax

T: +86 10 8809 1189 x 813

E: charles.cong@rsmchina.com.cn

Stephen WONG, Consulting and Risk Management

T: +86 10 8809 4180

E: stephen.wong@rsmchina.com.cn

About RSM Nelson Wheeler

RSM Nelson Wheeler was established in 1975 and is today one of the leading accounting and consulting firms in Hong Kong, offering a wide range of services to local and international clients.

Services include audit and investigations, corporate and personal taxation, management consulting, corporate advisory and executive recruitment, including the preparation and analysis of financial data, advising on capital raising, loans, incorporation, restructuring and the sale or acquisition of businesses. In addition, the firm can also assist you in accounting, corporate secretarial and trust, and trade requirements.

RSM Nelson Wheeler is the Hong Kong member firm of RSM International. Through its affiliation with RSM, RSM Nelson Wheeler offers a truly international service. This, together with a traditional approach of providing a structured, personalised service to all clients, makes RSM Nelson Wheeler an attractive and effective alternative to the “Big Four”, particularly in the following areas:

- Partners’ personal attention to clients’ needs
- Prompt response to clients’ enquiries
- Competitive and flexible pricing
- Emphasis on value-added services

RSM Nelson Wheeler has over 300 staff in Hong Kong and enjoys a client list comprising successful individuals and companies of all sizes, with differing needs and from all parts of the world, all with the common aim of participating in the economic growth of the Asia Pacific region.

RSM Nelson Wheeler will continue to grow as a firm and is confident of the economic future of the Asia Pacific region. The firm takes pride in contributing to and sharing in the growth and achievements of clients as they develop.

The firm’s aim is to continue to be a more efficient and technologically-advanced, client-oriented organisation, offering quality service and expertise based on its years of experience in the Asia Pacific region.

Asia Pacific is a key region in the world economy and RSM Nelson Wheeler is ideally placed to assist clients, be it in the development of new opportunities or in meeting clients’ existing business requirements.

Contact

For more information, please contact:

RSM Nelson Wheeler

29th Floor, Caroline Centre
Lee Gardens Two, 28 Yun Ping Road
Causeway Bay, Hong Kong

T: +852 2598 5123

F: +852 2598 7230

W: www.rsmnelsonwheeler.com

Contact Partners:

Wong Poh Weng, International Contact Partner

T: +852 2508 2802

E: pohweng@rsmnelsonwheeler.com

Stephen Wong, Head of Audit

T: +852 2508 2868

E: stephenwong@rsmnelsonwheeler.com

Dicky To, Head of Tax

T: +852 2508 2863

E: dickyto@rsmnelsonwheeler.com

Eugene Liu, Head of Transaction Services

T: +852 2583 1222

E: eugeneliu@rsmnelsonwheeler.com

Patrick Lo, Head of Risk Management Services

T: +852 2508 2822

E: patricklo@rsmnelsonwheeler.com

Stephen Wong, Head of Insolvency Services

T: +852 2508 2868

E: stephenwong@rsmnelsonwheeler.com

About RSM Chio Lim LLP

RSM Chio Lim was established in 1985 and is today the largest accounting and business advisory group outside the Big 4 in Singapore, with over 570 staff in Singapore and 280 in Shanghai, Beijing, Suzhou, Shenzhen, Chengdu, Hangzhou and Tianjin. RSM Chio Lim is the Singapore member firm of RSM International, and leads the RSM Asia Pacific's Centre of Excellence in Transaction Support Services.

The firm focuses on mid-market businesses and offers one-stop professionalism, convenience, and peace of mind to entrepreneurs - local and foreign - to set up and conduct business in Singapore and the region. The firm also assists foreign investors keen on investing in the Asia Pacific region by:

- Hand-holding and assisting them to manage, negotiate and enter the desired markets
- Providing advice on regulatory, financial and tax issues
- Facilitating and easing the process of setting up business here.

RSM Chio Lim is also registered with the Public Company Accounting Oversight Board (PCAOB) in the USA, meaning it is qualified to perform audits on subsidiaries of companies listed on the U.S. Securities Exchange. In 1997, RSM Chio Lim was one of the first accounting firms in Singapore to be ISO 9001:2008 certified.

The firm's suite of services includes:

- Audit
- Tax
- Business Valuations
- Sarbanes-Oxley Services
- Outsourcing (Financial Reporting, Payroll Processing, Staffing Solutions & Managed Services and IT Services)
- Mergers & Acquisitions Advisory
- Crisis Management
- Cross-border Investment Advisory
- Corporate Recovery and Insolvency
- Forensic & Litigation Support
- Corporate Risk Advisory
- Business Advisory relating to Fund-raising, Financial Restructuring and IPO
- IT Advisory
- Services for Non-Profit Organisations (NPOs)

Contact

For more information, please contact:

RSM Chio Lim LLP

8 Wilkie Road
#03-08, Wilkie Edge
Singapore 228095

T: +65 6533 7600

F: +65 6538 7600

E: info@rsmchiolim.com.sg

W: www.rsmchiolim.com.sg

Contact Partners:

Lim Lee Meng, Senior Partner

T: +65 6594 7899

E: lmli@rsmchiolim.com.sg

Ng Thiam Soon, Partner

T: +65 6594 7809

E: tsng@rsmchiolim.com.sg

Chio Kian Huat, Founder & CEO

T: +65 6594 7800

E: khchio@rsmchiolim.com.sg

Paul Lee, International Desk Liaison Partner

T: +65 6594 7818

E: paullee@rsmchiolim.com.sg

RSM International

Executive Office, 2nd Floor

11 Old Jewry, London EC2R 8DU

England

T: +44 20 7601 1080

F: +44 20 7601 1090

E: rsmcommunications@rsmi.com

www.rsmi.com

The aim of this publication is to provide general information about doing business in China and every effort has been made to ensure the contents are accurate and current. Tax rates, legislation and economic conditions referred to in this publication, however, are current to 31 March 2010. Information in this publication is in no way intended to replace or supersede independent or other professional advice. Copies of this booklet or additional information can be obtained from the RSM International Executive Office or members of the RSM China Practice Group.

RSM International is the brand used by a network of independent accounting and consulting firms. Each member of the network is a legally separate and independent firm. The brand is owned by RSM International Association. The network is managed by RSM International Limited. Neither RSM International Limited nor RSM International Association provide accounting or consulting services. The network using the brand RSM International is not itself a separate legal entity of any description in any country. The network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU. Intellectual property rights used by members of the network including the trademark RSM International are owned by RSM International Association, an association governed by articles 60 et seq of the Civil Code of Switzerland whose seat is in Zug.