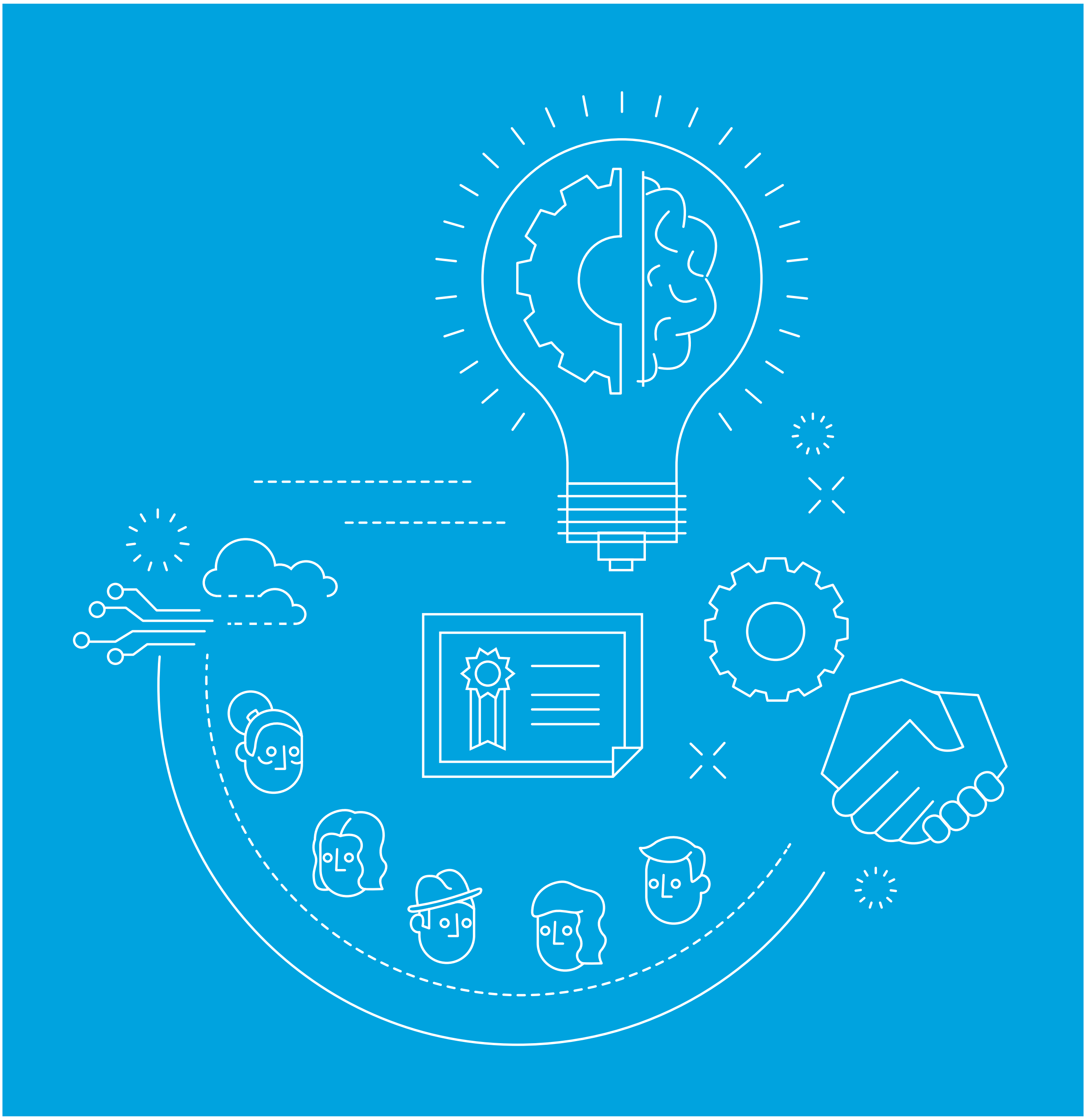
Doing Business in **China**

Empowering you to face the future with confidence



THE POWER OF BEING UNDERSTOOD
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RSM

Jean Stephens
CEO, RSM International

FORWORD

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 different 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 43,000 professionals in 120 countries and over 800 offices.

The RSM International China Practice Group is dedicated to helping internationally active businesses to achieve their objectives in China. Our China Practice Group professionals are bilingual in English and Mandarin and are conversant in accounting, tax 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.

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

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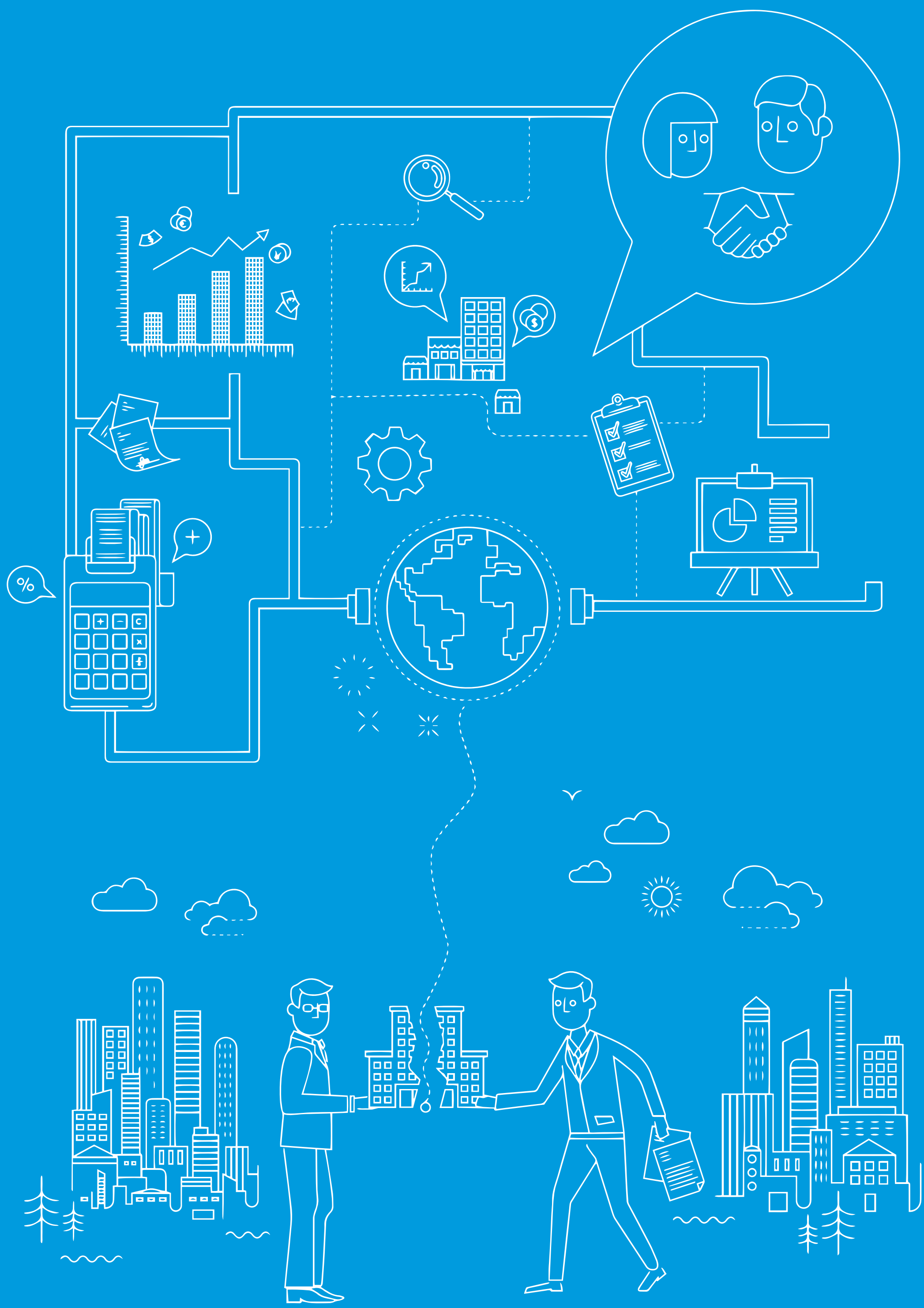
RSM International is one of the largest networks of independent audit and consulting firms in the world. RSM International is represented in over 120 countries and brings together the talents of 43,000 individuals. RSM member firms are driven by a common vision of providing high quality professional services to ambitious and growing organizations.



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With an area of 9.6 million square kilometers and a population of about 1.4 billion

GENERAL

With an area of 9.6 million square kilometers and a population of about 1.4 billion, China is one of the biggest countries in the world. Blessed with beautiful landscapes, 56 ethnic groups and the oldest continuous civilization known to mankind, China has long been one of the world's favorite 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, Uyghur, and Korean. The Han people use many dialects in different parts of China, such as Cantonese and Shanghainese 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 6.60% in 2018 reaching ¥ 90.03 trillion (US$ 13.12 trillion), China has been the second largest economy in the world for several years. The consumer price index (CPI) growing of China stood at 2.1% for 2018. China is opening her arms not only to tourists, but also international entrepreneurs. In 2018, the number of inbound visitors to China totaled 95.3 million for leisure, business, or to attend conferences. Foreign Direct Investment (FDI) was US$ 134.97 billion in 2018, with a 3% annual increase. There were also over 60.53 thousand newly-established foreign-invested companies in 2018. Imports and exports increased by 12.6% to US$ 4.62 trillion compared with 2017. Trade surplus for 2018 decreased of US$ 67.82 billion to US$ 351.76 billion. This was mainly due to increased imports of high-tech products, green technology, resource-related goods as well as simplified procedures and tariff cuts on certain items.

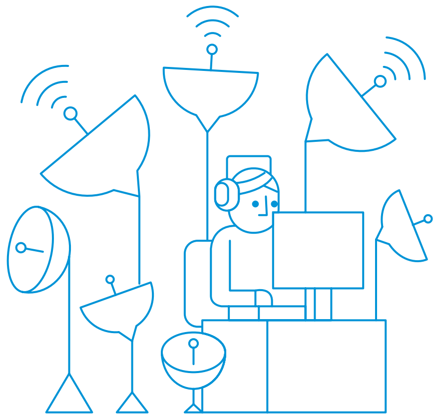
Like many other Asian countries, China's foreign reserves have exceeded their optimum level in recent years. According to the State Administration of Foreign Exchange (SAFE), China has over US$ 3.07 trillion of foreign reserves by the end of 2018. China is the country with the highest foreign reserves 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. At the end of 2018 the Renminbi had depreciated by 5.04% compared with 2017.

Administration

China is divided into 23 provinces, 5 autonomous regions, 4 municipalities directly under the Central Government, and 2 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 liberalizing its economy in 1978, China has undergone eight large-scale government administration reforms. 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.



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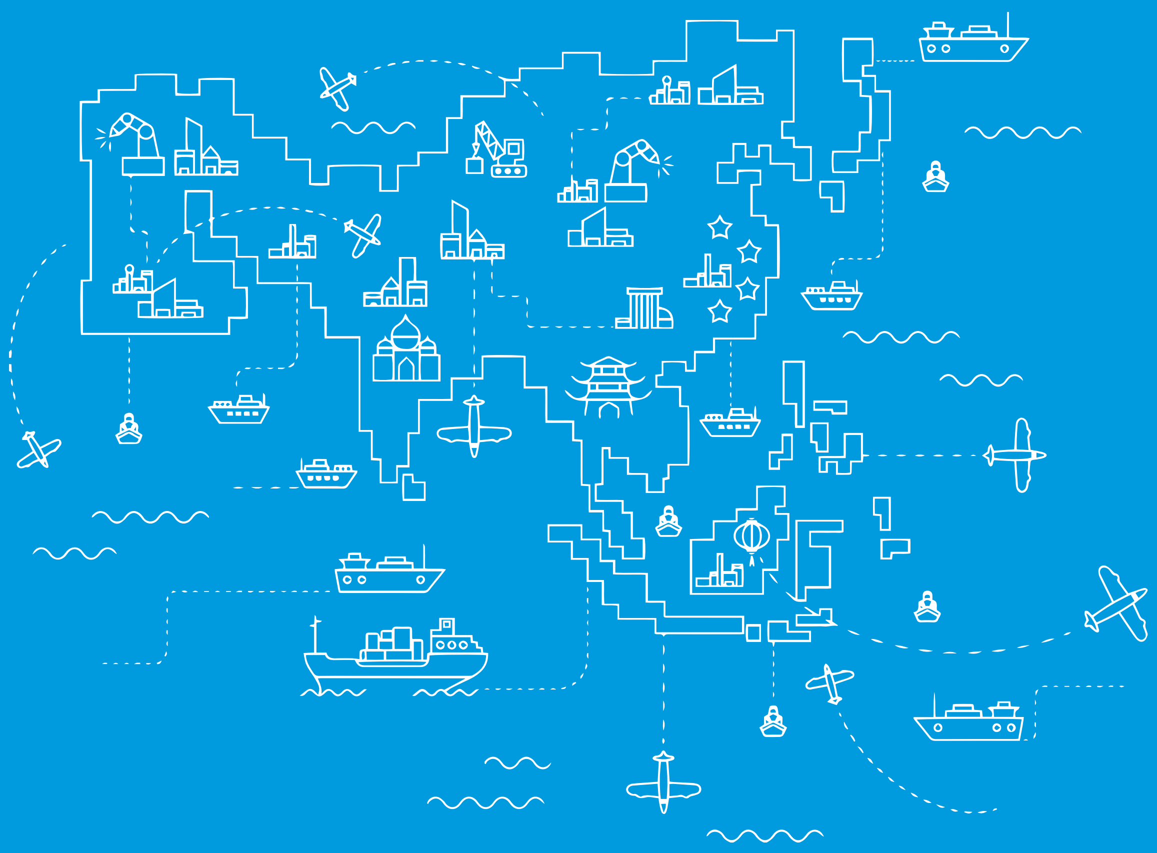
Entry and exit of China Business



ENTRY AND EXIT OF CHINA BUSINESS

Forms of foreign investment in China

Foreign investors are allowed to register the following types of entities for doing business in China:

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. It must confine its activities to promotion or acting as a liaison office on behalf of its head office. In general, RO is not allowed to generate revenue, solicit business, engage in warehousing or sign contracts with customers. Besides, RO can only hire local staff through approved employment agencies.

Branch

A branch will likely constitute a Permanent Establishment (PE), and thereby giving rise to a taxable presence in China. Market entry via this option often gives rise to onerous filing requirements, and complications as regards taxation of profits. It would also expose the foreign company to Chinese tax and litigation.

Joint Venture[1]

A foreign-invested partnership can be considered as a substitution if the foreign investor does not want to incorporate a joint venture enterprise.

- 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.

[1] A foreign-invested partnership can be considered as a substitution if the foreign investor does not want to incorporate a joint venture enterprise.

- A cooperative venture does not require a new business license if it is arranged in contractual form under the auspices of an existing JV 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.
- Reduction of registered capital should be subject to the approval of the government.

• Equity Joint Venture (EJV)

An EJV 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 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.

The minimum level of foreign participation in an EJV is 25%[2] Pursuant to the ‹Foreign Investment Law of the People's Republic of China› effective from 1 January 2020, the term that foreign investors should contribute at least 25% of registered capital of the EJV or CJV will be abolished.] of the registered capital in general. If not, the business license will indicate "foreign investment ratio below 25%" in "Enterprise type" column where the foreign investor is required to contribute all investments within 3 months after obtaining the business license if the investment is in the form of cash, or 6 months if the investment is in kind or industrial properties. Meanwhile, such EJV cannot, when importing equipment or articles for its own use, enjoy preferential tax treatment for foreign-funded enterprises.

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 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.
- A WFOE is allowed to apply for business scope beyond the Negative List.
- 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 WFOEs is encouraged.

[2] Pursuant to the ‹Foreign Investment Law of the People's Republic of China› effective from 1 January 2020, the term that foreign investors should contribute at least 25% of registered capital of the EJV or CJV will be abolished.

In light of setting up the holding structure of a WFOE in China, generally speaking, the foreign investor should take into consideration the following aspects from the tax perspective:

- Double tax treatment between the countries of the holding company and its invested entity, as well as the double tax treatment signed between the countries of the holding company and its ultimate holding company;
- Possibility for the holding company to achieve a lower withholding tax (WHT) rate[3] on the passive income and capital gains through treaty benefit;
- Possibility to defer WHT if the retained profit repatriated from the WFOE is used to fund new investment in China by the overseas holding company;
- PRC tax liability on potential future restructuring of the holding structure (e.g., disposal of the WFOE); and
- China Holding Company (subject to higher requirement of asset and capital), providing an umbrella-structure which enables a foreign company to hold together its joint venture and WFOE investments in China, is encouraged.

Incorporation of Business Entities

Approval and Registration Procedure

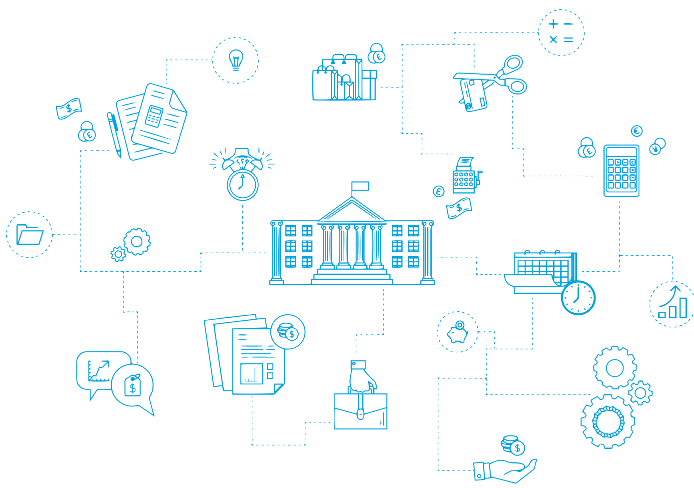
The approval of a foreign investment enterprise (FIE) in China would depend on the nature of the proposed project. In 2018, the National Development and Reform Commission and Ministry of Commerce in China released the updated "Special Administrative Measures (Negative List) for Foreign Investment Access" circular, which took effect on 28 July 2018.

Investment projects that do not fall in the Negative List would be administered under the consistency principle for domestic and foreign investment. 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 FIE should file the record at the Ministry of Commerce (MOFCOM) for the establishment normally with key supporting documents, e.g. 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.

Meanwhile, the FIE should register at the Administration for Market Regulation (AMR) in the relevant location to obtain the name reservation and then a business license. Within 30 days of the issuance of the business license, the FIE must register with the local tax authorities. If the FIE would like to participate in the import and export business, it is necessary to seek approval from the Customs Bureau.

Incorporation of
Business Entities



[3] Please note to enjoy the double tax treatment, the holding company shall satisfy some specific requirement and provide the supporting document as proof.

A Comparison of Main Investment Vehicles			
WFOE	**EJV**	**CJV**	**RO**
Advantages			
✓ Foreign investor has full equity control and management	✓ Chinese partner may provide land, building, equipment as well as intangible asset, profit are clearly shared in proportion to the equity of each partner	✓ Chinese partner may provide land, building and equipment ✓ Make use of Chinese partner's licenses ✓ Flexible arrangement in form of cooperation, profit / responsibility sharing ✓ Investor is allowed to recover its capital investment upon agreement	✓ Lower risk with initial market testing
Disadvantages			
✓ Cannot set up WFOE in specific Industries ✓ Difficulties of fund repatriation	✓ Does not have full equity control and management ✓ Difficulties of fund repatriation	✓ Does not have full equity control and management ✓ Difficulties of fund repatriation	✓ Cannot engage in direct business ✓ Must engage local agent to hire employee
Equity Holding			
✓ Foreign investor(s) contribute 100% of registered capital	✓ At least 1 foreign investor and one Chinese investor ✓ Foreign investor contributes at least 25% of registered capital [2]		✓ Not applicable
Governance			
✓ One Managing Director or Board of Directors (BOD) of at least 3 directors ✓ A Supervisor or Supervisory Board shall also be appointed	✓ BOD of at least 3 directors ✓ A Supervisor or Supervisory Board shall also be appointed	✓ BOD of at least 3 directors or Joint Management Committee ✓ A Supervisor or Supervisory Board shall also be appointed	✓ Chief Representative
Tax			
✓ Liable to company income tax, value- added tax, individual income tax ✓ Enjoy tax incentives like "Reduced tax rate for New-High Technology ✓ Double Tax Treaty applies			
Reporting and Compliance			
✓ Monthly Report, Quarterly Report, Annual Audit[1], Annual Combined Inspection[2] and Annual AMR Report[3]			
Time (general) – upon submission of required documents			
✓ 2 months	✓ 3 months	✓ 3 months	✓ 2 – 3 months

4 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.

5 FIEs in China are required to undergo the annual combined inspection conducted by several Government Bureaus, including the Finance Bureau, Customs, Tax Authority, State Administration of Foreign Exchange, Foreign Economic and Trading Department, Statistics Bureau and State Administration for Market Regulation and etc.

6 FIEs and representative offices are required to file annual report to AMR between 1 March and 30 June following the end of a calendar year. The information filed by the FIEs and representative offices will be published on the internet for the information of the public.

Establishment Procedures

Below is a simplified flowchart of establishment steps for reference only:

Step 1
- Obtain the preliminary approval of the company name from AMR

Step 2
- File record to MOFCOM

Step 3
- Obtain business license from AMR

Step 4
- Resgistration in other authorities

Capital Contribution

The Chinese Government believes that regulating foreign investment is very important for economic and social order. The registered capital of an FIE refers to the capital registered at the State Administration for Market Regulation (SAMR) 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, the terms on the limitation of minimum amount of registered capital was abolished. However, it is possible for different cities in China would in practice have different registered capital requirements in practice, 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).

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.

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 according to the Articles of Association of the FIE. It is normally seen that the shareholders contribute the registered capital within 2 years from the date of the business license.

An FIE is only permitted to repatriate profits after RC has been fully contributed and only then after tax clearance has been obtained. 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.

- Capital increase

  It is a common practice for the FIE to increase the total investment and registered capital with the expansion of business in China.

  For capital increasing, the enterprise is required to submit record filing and application document package to Commission of Commerce (COC), SAFE or designated banks and AMR. It will take one to two months to apply capital increase.

- Capital decrease

  Based on PRC company laws and regulations, as well as our experience, it would generally be difficult for authorities to approve the FIE to decrease the registered capital.

Foreign Debt

The excess amount of the registered capital can come from loans, which could be borrowed from the foreign investor and other sources from overseas, including overseas banks under the two different models:

investment amount model and net assets model. The WFOE is free to adopt either model for the foreign debt but the model cannot be changed once decided and recorded in the SAFE. Normally, the SAFE and bank will ask for more supporting documents such as annual audit report of the WFOE if the net assets model is selected.

In practice, the aforementioned two models only limit the foreign loans. The FIE may borrow domestic loans in RMB in excess to the above limit. This is, however, subject to negotiation with the local banks.

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 bureaus. 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 practice in China.

Exit from China Market

By Share Transfer

- Direct share transfer

  For direct share transfer, i.e. a non-resident enterprises transfers stock rights or equity of a Chinese resident enterprise directly controlled by it, the PRC enterprise income tax shall be levied on the transfer of the stock rights or equity, and the withholding agent shall withhold the tax according to tax law.

- Indirect share transfer

When non-resident enterprises transfer either stock rights or equity of overseas enterprises who directly or indirectly hold taxable properties in Chinese resident enterprises, the taxable properties is defined as being indirectly transferred. If the indirect share transfer is re-characterized as "direct transfer" of the taxable properties in Chinese resident enterprises by the Chinese tax authority, the seller shall be subject to income tax based on the capital gain according to the tax regulations.

By Liquidation

Besides the share transfer, investors can also withdraw investment in the FIE by means of company liquidation. Based on the current local practice, the liquidation procedures of PRC companies would include following steps:

- Record of liquidation committee with AMR;
- Record of deregistration application with COC;
- Posting announcement of company liquidation on newspaper for 45 days;
- Liquidation and deregistration with in-charge tax bureau;
- Deregistration with Customs (if applicable);
- Deregistration with SAFE;
- Remitting out the remaining capital (if any);
- Closing the bank accounts;
- Deregistration with AMR; and
- Deregistration with Labor Bureau and Public Security Bureau.

Generally speaking, the company's liquidation and deregistration are usually time- consuming in China, and that much efforts would be devoted in the whole process. The company would go through onerous regulatory procedures and various authorities would be involved in the procedures, among which it may take longer time for a company to seek the de-registration approval from the tax authority where professional advice or assistance would be suggested. The tax authority will have an overall review of the tax and TP compliance status during the tax liquidation. Any under-reported tax liability will be required to get filed and paid. Also, the company should continue taking care of its accounting book and performing tax filing and other regulatory filings until the approval from tax authority is obtained.

3

Foreign Exchange Controls

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 authorized the China Foreign Exchange Trading Centre to announce these rates at 9:15 am every working day.

SAFE exercises the functions and powers of exchange control. It achieves its targets mainly through a foreign exchange registration system and account categorization system. An FIE should, proceed with foreign exchange registration after obtaining the business license. The certificate should be subject to annual inspection by foreign exchange authorities.

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.

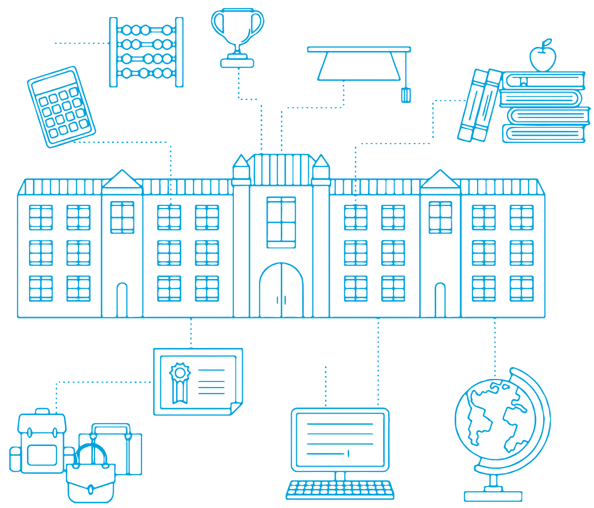
Foreign Currency Current Account

Transactions such as the sale of goods, the provision of services and other expenditure, e.g., payments and receipts from international trade, payments of interest on foreign loans (not the repayment of principal) and the repatriation of dividends, generally are classified as "current account" items. Payments and receipts of foreign exchange under current account must be based on accurate and legitimate transactions. The receipt of forex under current account may be sold to financial institutions engaged in the settlement and sale of forex in accordance with relevant state regulations. A forex payment under current account shall be supported by valid documents and settled with self-owned forex or forex purchased from financial institutions engaged in the settlement and sale of forex in accordance with relevant state regulations. In practice, a forex payment should be carefully discussed with the bank as they sometimes apply stringent control and difference requirement on cross-border payment.

Foreign Currency Capital Account

If the purpose of a transaction is to create capital (i.e. equity or securities investments, loans, derivative deals, guarantees benefiting a foreign entity, etc.), the forex will be regarded as capital account item, with strict control over its movement. Although China previously required strict foreign exchange administration of capital account transactions, in recent years, the SAFE has issued guidance that simplifies and relaxes the rules governing foreign exchange administration of inbound and outbound investment. Forex controls over the capital account mainly include the following:

- All forex in the capital account and the fund for settlement must be used in accordance with designated purposes approved by relevant authorities and the SAFE;
- Foreign entities and individuals that invest in China or engage in the issuance and transaction of securities or derivatives must register for forex purposes;
- Domestic entities and individuals that engage in outbound investments or the issuance and transaction of securities or derivatives abroad must register for forex purposes;
- Foreign debts should be registered with the SAFE or its branches, which will not approve the repayment of foreign debt unless it has been properly registered;
- Certain cross-border guarantees must be registered with the SAFE or its branches.



Remittance of Funds out of China

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.

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. Outward repayments of reimbursement / paid-on-behalf shall not exceed 1 year.

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 exceeding US$50,000:

- Original agreement;
- Original invoice issued by the foreign party;
- Tax payment / exemption certificates issued by the relevant tax authorities;
- Record-filing for payment forms chopped by the tax bureau

Remittance of Funds out of China

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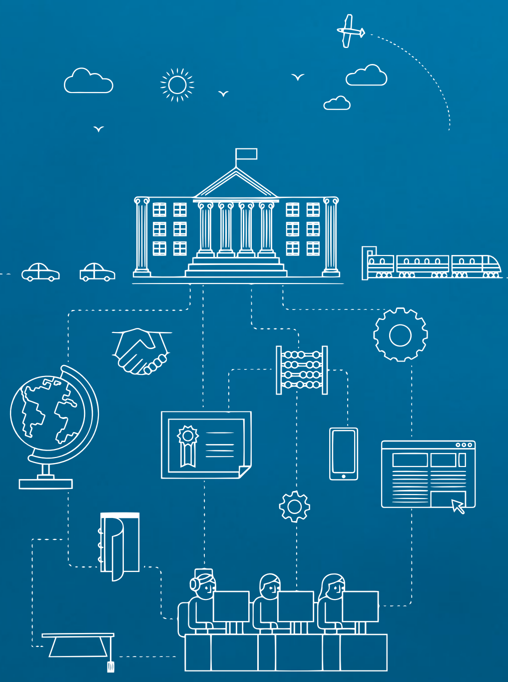
Overview of China Tax



TAXATION

Overview of China Tax

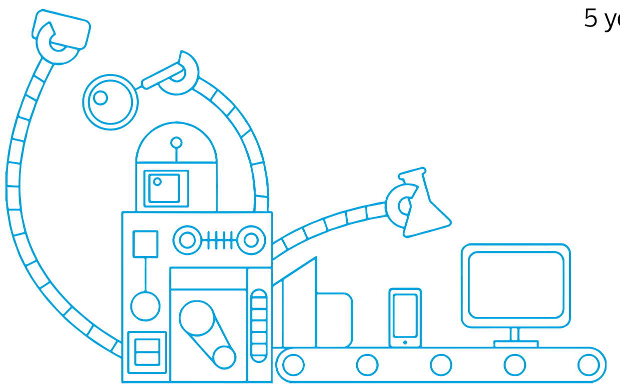
This section of the booklet is designed to provide introductory information only. It is by no means comprehensive, as the tax regulations and practices in China are constantly changing.

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 harmonized. 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.

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 authorized 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 China Taxes

Corporate Income Tax (CIT)

Under the prevailing PRC CIT law and regulations, a company will be subject to CIT on actual profit basis. The following formulas would be applicable to calculate the CIT liability:

- Accounting profit = total income – tax-inapplicable income – tax-exempted income – deductible expenses – loss carried forward from previous yeas
- Tax profit = accounting profit +/- book to tax adjustments
- CIT payable = tax profit * statutory tax rate (25%)

Not all costs and expenses incurred by companies are deductible. Only reasonable expenses and related expenses with valid invoices incurred in the ordinary course of business for the production of income and not prohibited under the CIT Law are tax deductible. Certain items could only be deducted according to the threshold or the minimum timeframe prescribed by PRC CIT law and regulations. Where an enterprise incurs expenses or assets in the production of non-taxable income, such amounts cannot be deducted, amortized or depreciated.

In addition, tax losses can be carried forward for a period of not more than 5 years to offset against future taxable income. Meanwhile, tax losses cannot be carried back. For the qualified high-tech enterprises, the period shall be ten years.

Tax Credit for Foreign Tax Paid

Subject to the detailed provision under tax treaty, 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 5 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 in Renminbi generally on a quarterly basis, within 15 days after the end of the 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 5 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 5 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.

Value Added Tax (VAT)

Under the prevailing PRC VAT regulations, a company would normally be liable to VAT as follows:

- Sales and importation of goods (13% VAT);
- Provision of processing, and repair and replacement services (13% VAT);
- Provision of transportation, postal, basic telecommunication, construction and real estate leasing services, sales of real estate, transfer of tenure (9% VAT);
- Leasing of tangible movables (13% VAT); and
- Other services (6% VAT).

There are two different calculation methods under the current VAT mechanism, separately for general VAT payers and small-scale VAT payers:

- If certain criteria could be satisfied, the tax payers would be classified as general VAT payers and subject to output VAT at certain rate, whereas input VAT from purchase is creditable against output VAT.
- On the other side, small-scale VAT payers would be subject to VAT at 3% where input VAT credit is not allowed.

VAT is computed based on the following formula:

As a general VAT payer:

- VAT payable = Output VAT for domestic sales/service – verified Input VAT

  = Domestic sales/service income X applicable VAT rate – verified Input VAT

OR

As a small-scale VAT payer:

- VAT payable = Domestic sales/service income * 3%.

  VAT will be triggered when the sales/service income is received or documented evidence of the right to collect the income is obtained; whereas the VAT invoice is issued earlier, the VAT will be triggered when the invoice is issued. The general VAT payer should file VAT for the sales/service income received on monthly basis, which will be due in 15 days subsequent to the end of each month; whilst the small-scale VAT payer should file VAT on quarterly basis, which will be due in 15 days subsequent to the end of each quarter (i.e., March, June, September and December).

  Meanwhile, the local levy ("LL") will also be imposed on the total VAT payables. LL is computed based on the following formula:

- LL payable = VAT payables X LL rate, whereas the LL rate depends on the specific location of the WFOE.

VAT Invoice (known as "fapiao")

In addition, regarding VAT invoice (called "fapiao" in Chinese) issuance, there are 2 kinds of fapiaos for general VAT payers to issue: the VAT special fapiao and the VAT normal fapiao.

The main difference is that the VAT special fapiao, in general situations, could be claimed as input VAT credit by the customer who receives the fapiao while the VAT normal fapiao cannot. However, the VAT special fapiao cannot be issued to individuals.

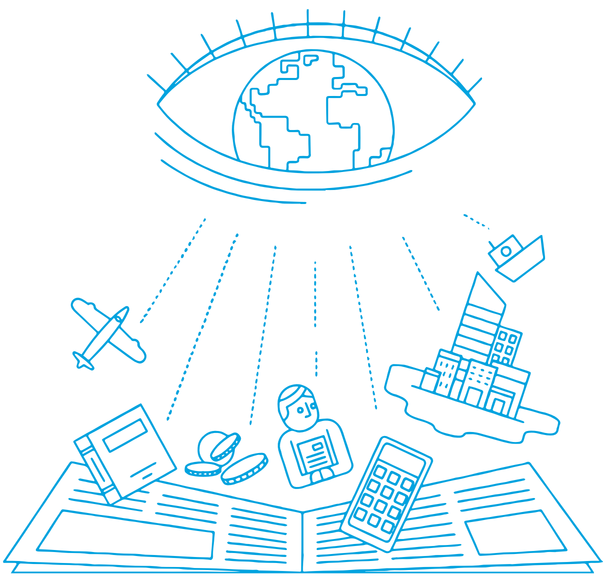
Please note that prior to the issuance of the fapiao, it is required to purchase necessary equipment from vendors that designated by tax authorities and set up tax system properly.

After the setup of the tax machine and tax system, companies should also apply for blank fapiaos from tax authorities. Companies have the obligations to keep record of the blank, issued or cancelled fapiao according to prevailing PRC tax laws.

Moreover, to claim input VAT, it is required for companies to perform input VAT verification via online system within 360 days after the vendor issues the special VAT fapiao.

Assessment and Administration

VAT returns generally must be filed each calendar month and submitted before the 15th day of the following month. Taxpayers importing goods must pay tax within 15 days after the issuance of the tax payment certificate by the customs authorities.



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:

Type of Enterprises	Tax rates
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%

Certain items may be exempted from consumption tax according to PRC tax laws.

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 (e.g., reduction, exemption and temporary exemption).

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

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.

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 being 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

eal 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

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

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.

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 land use rights, buildings and other facilities attached to the land, at progressive tax rate on different bracket of value increase.

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

The detailed calculation and implementation of Land Appreciation Tax could be quite complicated with different local practice. Professional advice would be suggested for specific case assistance.

Stamp Duty

Under the prevailing SD regulations, SD is imposed on certain dutiable contracts and documents on different rate generally ranging from 0.03% to 0.1%. Stamps bought from the tax authority shall be affixed to contracts and documents. Taxpayers shall also cancel each stamp along its border with a seal or a drawn line. Otherwise, the SD will be deemed not to have been paid.

In general, the stamp duty can be filed by contract, or on monthly/quarterly/annual basis depending on the requirement by the in-charge tax authority.

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 at different rates depending on the specific product. Meanwhile, the resource tax regime is being reformed, aiming to apply ad valorem tax.

Environmental Protection Tax (EPT)

China's legislative body passed the Environmental Protection Tax Law (EPT Law) at the end of 2016. The EPT Law becomes effect on 1 January 2018 and replaces the existing pollutant discharge fees. EPT will be collected from enterprises that directly discharge taxable pollutants (i.e. air pollutants, water pollutants, solid waste, and noise pollution) within the territory of China. EPT will be calculated based on the volume of pollutants discharged, multiplied by the specific EPT amount.

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 (e.g. service 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% but the applicable rate has been reduced to 10% for corporates pursuant to Article 91 of the Detailed Implementation Rules.

Concession on 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 1 Jan. 2008 and beyond shall be subject to withholding tax, while dividends paid from pre-2008 profit shall remain exempted.

For different types of outward payment, China has concluded an extensive number of tax treaties16 which help to reduce the domestic withholding tax rates. In the case where 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 relevant expenses have been accrued and expensed in the accounts but payments are not due yet, they are deemed to have been paid to the non-resident enterprise and withholding tax shall be accrued in the current accounting period.

Individual Income Tax

Personal income tax is levied on both Chinese and foreign individuals (albeit with varying allowances), and tax is imposed on private business income.

Expatriate employees of Chinese enterprises, resident representatives of foreign businesses and other individuals who hold residence permits normally must register with the tax authorities if they are subject to individual income tax in China.

In 2018, the new PRC Individual Income Tax ("IIT") Law ("the new IIT law") containing broad changes to the existing IIT system and the final implementation regulations for the amended IIT law were released, and have applied as from 1 January 2019[7]. The adoption of the 7th Amendments to the IIT Law is a milestone in PRC IIT reform.

The changes to the IIT system aim to promote social fairness and justice by alleviating the tax burden, increasing personal income and boosting consumption by the middle and lower income classes. Unlike some previous amendments that merely adjusted the standard deductions or modified the tax brackets for salaries and wages, the draft includes fundamental changes to the definition of a resident, it provides for the consolidation of various categories of income, the introduction of more itemized deductions and anti-avoidance rules, etc. These changes could have a profound impact on Chinese IIT landscape.

[7] On 31 August 2018, the 7th amendments to the PRC Individual Income Tax ("IIT") Law were approved by the Standing Committee of the National People's Congress ("NPC"). The changes have become effective on 1 January 2019. On 22 December 2018, China's State Council released the final implementation regulations for the amended Individual Income Tax ("IIT") law (Decree of the State Council No. 707). Like the new IIT law, the regulations have applied as from 1 January 2019.

China Quick Facts for Individuals	
Income tax rates	3%-45% (comprehensive income: salaries and wages, remuneration for (independent) services, authors' remuneration, and income from royalties), up to 35% (business profits)
Capital gains tax rates	0%/20%
Basis	Worldwide income[8]
Double taxation relief	Yes
Tax Year	Usually calendar year
Return due date	Before 30 June of the following year (comprehensive income annual filing tax return)[9]; Between 1 March and 30 June of the following year (foreign-source income tax return); and within 15 days of the month following the month in which income is earned (comprehensive income / independent services income withholding return)
Dividends	20%/0%[10]
Interest	20%[10]
Net wealth tax	No
Social security	Varies
Inheritance tax	No
Real estate tax	12% (rental income), 4% (lease of residential property)
Deed tax	3%-5%
Land appreciation tax	30%-60% of gains from transfer
VAT	0%, 6%, 9% and 13%; a 3% and 5% rate apply under the simplified VAT calculation method.

Definition of resident

There is no specific definition of tax residence for personal tax purposes in the old IIT law while the new IIT law introduced the internationally recognized "183-day" test to determine whether an individual is a Chinese tax resident, which basically works as below:

	Definition	Tax scope
Resident	China-domiciled individuals; and Non-China-domiciled individuals who stay in China for 183 days or more in a calendar year	Both China- and non-China source income (please refer to "taxable income" for details)
Non-resident	Non-China-domiciled individuals who stay in China for less than 183 days in a calendar year	Only China-source income

Tax categories

The new IIT law uses a typical schedular system, according to which all taxable income is classified into 9 categories and the income under the different categories is taxed separately: employment income (e.g. salary and wages, personal benefits, income in kind, cost of living allowances); production and business income; remuneration; dividends and bonuses; interest income (except interest from bank deposits); royalty income; income from the leasing of property; income from the assignment or transfer of property; contingency income. Meanwhile the new IIT law consolidated four categories of income (i.e., salaries and wages, remuneration for (independent) services, authors' remuneration, and income from royalties) into a single new tax category called "comprehensive income."

[8] Applicable for individuals who are PRC tax residents only.

[9] The IIT on comprehensive income derived by residents is assessed on an annual basis, and is collected through the withholding of tax in advance on a monthly or transactional basis, followed by a final reconciliation and settlement by the taxpayer at the time he/she files the annual tax return.

[10] Lower tax rates for income of dividend, interest and royalty may apply under the conditions where tax treaty is applicable.

Taxable income

China-domiciled individuals (China-domiciled residents) are subject to individual income tax on their worldwide income; non-domiciled individuals are subject to tax depending on the source of income. A non-domiciled individual who has resided or stayed in China for less than 183 days in a calendar year (Non-residents) is subject to tax only on Chinese-source income borne by a Chinese entity or establishment[11]. A non-domiciled individual who is in China for 183 days or more (Non-China-domiciled residents), but who does not meet the 6-consecutive-year test (see below) is subject to personal tax on Chinese-source income, plus foreign-source income borne by a Chinese entity.

A non-domiciled individual who has resided in China for six consecutive full years is subject to Chinese individual income tax on his/her worldwide income for each full year the individual resides in China, as from the seventh year. Any absence from China for more than 30 days during a temporary trip, or cumulatively for more than 90 days over numerous trips within the same tax year, breaks up the "full" year.

Taxable income comprises employment income (e.g. salary and wages, personal benefits, income in kind, cost of living allowances); production and business income; remuneration; dividends and bonuses; interest income (except interest from bank deposits); royalty income; income from the leasing of property; income from the assignment or transfer of property; contingency income.

If a domiciled individual has to pay income tax on foreign-source income in another country as well as in China, the tax paid in the foreign country may be used to offset the individual's Chinese tax liability as applicable by relevant tax treaties. However, the maximum amount of the offset may not exceed the Chinese individual income tax payable, as calculated in accordance with the law.

Items that can be paid to foreign employees (through reimbursement and with sufficient documentation) and remain tax-exempt include housing allowances, relocation expenses, meal subsidies and laundry expenses; reasonable allowances for business trips in China or abroad (including home leave); language training expenses; and a portion of child education fees[12]. Although advance approval of the tax authorities is not required for this exemption, certain location may still registration for the above tax-exempt benefit and supporting documents and valid commercial invoices must be retained for the tax authorities' review.

Deductions and reliefs

The new IIT law introduces various measures including increasing the basic standard deduction, the introduction of more itemized deductions, and the expansion of the scope of the lower tax brackets to reduce the overall tax burden on individual taxpayers, with the middle- and/or low-income groups probably receiving the most benefits.

Standard deduction

Deductions and allowances are available, depending on the category of income. For wages and salaries received in China, individuals are entitled to a fixed monthly deduction of RMB 5,000 (i.e., RMB 60,000 per year)[13]. Personal basic contributions are deductible. These include payments to housing funds and certain medical insurance, pension and unemployment insurance payments.

Taxable income from personal services, royalties and author's remuneration from manuscripts and the leasing of property is net of a standard deduction for expenses that is equal to 20% of total income, with a minimum amount of RMB 800 per payment. For author's remuneration, a further 30% deduction on the reduced gross income is allowed. Reasonable business expenses incurred in earning income from a business are deductible.

Additional itemized deductions

To promote the well-being of the population and reduce the cost of living, the new IIT law introduced additional itemized deductions, including deductions for a child's education and continuing education expenses, medical expenses for critical illnesses, housing mortgage interest, housing rent and elderly parent support.

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[11] Please note the taxable income of a non-domiciled individual who has resided or stayed in China for less than 183 days in a calendar year (Non-residents) is under the circumstance where tax treaty is applicable.

[12] After the new IIT tax law introduced the additional itemized deductions, foreign individuals could select either applying the 6 itemized deductions or the existing 8 tax-exempt items on the taxable income during the period of January 1, 2019 to December 31, 2021. Starting from January 1, 2022, all foreign individuals should apply the 6 itemized deductions and tax-exempt items would be repealed.

[13] Under the new IIT law, the basic standard deduction that used to apply to salaries and wages also applies to comprehensive income and is increased from RMB 3,500 per month to RMB 5,000 per month (i.e., RMB 60,000 per year). Meanwhile, the new IIT law repealed the additional standard deduction of RMB 1,300 per month that used to apply to salaries and wages earned by foreign individuals working in China and China-domiciled individuals working overseas.

Tax rates

Tax rates can be progressive or flat. 7 progressive tax rates, ranging between 3% and 45%, are levied on comprehensive income (e.g., salaries and wages, remuneration for (independent) services, authors' remuneration, and income from royalties). The IIT on comprehensive income derived by residents is assessed on an annual basis, and is collected through the withholding of tax in advance, which is remitted to the tax authorities by the payer (i.e. withholding agent) on a monthly or transactional basis, followed by a final reconciliation and settlement by the taxpayer at the time he/she files the annual tax return. The same progressive rate schedule applies to both Chinese residents and foreign residents (See Table I).

Dividends, interest, royalties, income from the leasing of property, income from the transfer or assignment of property, income from manuscripts and contingency income are taxed at a rate of 20%. Interest on bank deposits temporarily is exempt from individual income tax. Income from independent services, as comprehensive income performed by residents is subject to advance withholding tax rates ranging from 20% to 40% (See Table II) while should be added in comprehensive income and be taxed according to the rate ranging from 3% to 45% in the annual filing. (See Table II).

The IIT on comprehensive income derived by nonresidents is assessed on a monthly or transactional basis and is generally collected through the withholding of tax, which is remitted to the tax authorities by the payer (See Table III).

A separate tax schedule applies to income from the operation of a private business (including on a contractual or lease basis). For a private business, taxable income is defined as total revenue net of costs, expenses and losses incurred. For a business operating on a contractual or lease basis, taxable income is total revenue net of necessary expenses. Progressive tax rates apply to each level of taxable income (See Table IV).

Gains on the sales of real property also may be subject to VAT, LAT, etc. Individuals generally are exempt from income tax on gains from the sales of their sole private dwelling if they have occupied the residence for 5 full years or more.

Table I – Advance withholding tax rates (Salaries and wages derived by residents)

Brackets	Cumulative Taxable Income of salaries to date	Tax Rate	Quick Deductions
1	RMB 36,000 or less	3%	0
2	Over RMB 36,000 up to RMB 144,000	10%	RMB 2,520
3	Over RMB 144,000 up to RMB 300,000	20%	RMB 16,920
4	Over RMB 300,000 up to RMB 420,000	25%	RMB 31,920
5	Over RMB 420,000 up to RMB 660,000	30%	RMB 52,920
6	Over RMB 660,000 up to RMB 960,000	35%	RMB 85,920
7	Over RMB 960,000	45%	RMB 181,920

Table II – Advance withholding tax rates (Remuneration for independent services performed by residents)

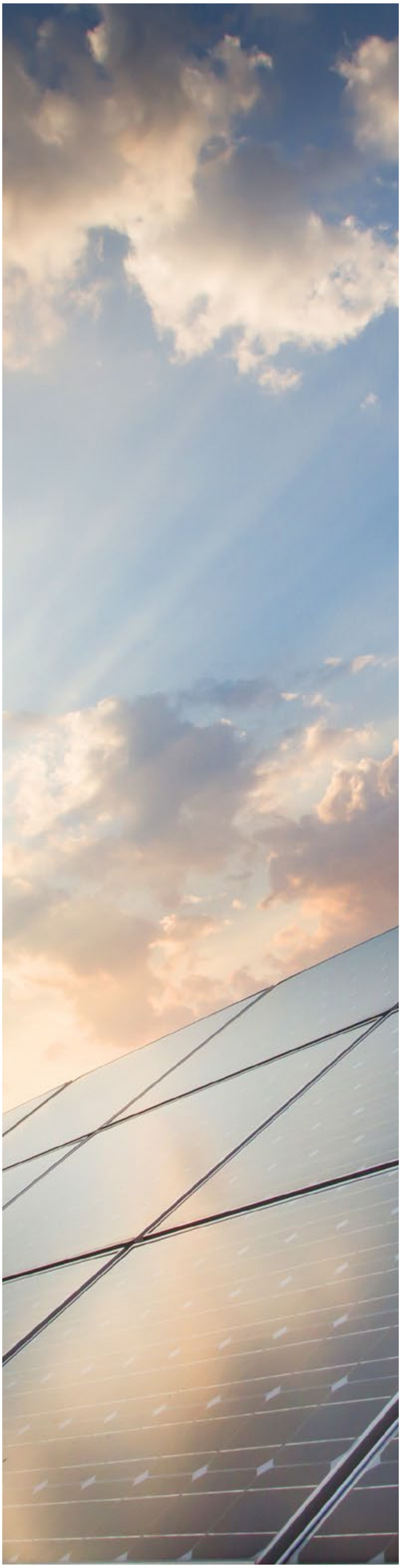
Brackets	Taxable Income	Tax Rate	Quick Deductions
1	RMB 20,000 or less	20%	0
2	Over RMB 20,000 up to RMB 50,000	30%	RMB 2,000
3	Over RMB 50,000	40%	RMB 7,000

Table III – Withholding tax rates (Comprehensive income derived by nonresidents)

Brackets	Taxable Income	Tax Rate	Quick Deductions
1	RMB 3,000 or less	3%	0
2	Over RMB 3,000 up to RMB 12,000	10%	RMB 210
3	Over RMB 12,000 up to RMB 25,000	20%	RMB 1,410
4	Over RMB 25,000 up to RMB 35,000	25%	RMB 2,660
5	Over RMB 35,000 up to RMB 55,000	30%	RMB 4,410
6	Over RMB 55,000 up to RMB 80,000	35%	RMB 7,160
7	Over RMB 80,000	45%	RMB 15,160

Table IV – Advance withholding tax rates (Income from the operation of a private business)

Brackets	Annual Taxable Income (private business income)	Tax Rate
1	RMB 30,000 or less	5%
2	Over RMB 30,000 up to RMB 90,000	10%
3	Over RMB 90,000 up to RMB 300,000	20%
4	Over RMB 300,000 up to RMB 500,000	30%
5	Over RMB 500,000	35%



Tax Filing

The old annual filing requirement for individuals whose annual income exceeds RMB 120,000 is replaced by the annual filing requirement applicable to comprehensive income derived by resident individuals ("new annual filing"). A wider group of individuals will be subject to the new annual filing requirement.

Under the new IIT Law, comprehensive income by resident individuals will be assessed on an annual basis. Therefore, the IIT for resident individuals will be collected through advance payments withheld and remitted by the payer (if any) on a monthly or transactional basis within 15 days after the month in which the tax was withheld, with a final settlement made by the taxpayer in an annual tax return. The annual return is due between 1 March and 30 June of the year following the calendar year. Going forward, an annual tax settlement could become standard, especially for resident individuals who derive taxable income from multiple sources. However, the annual tax settlement could be relevant even where income is derived from a single source; for example, if a resident individual fails to provide the information relating to additional itemized deductions to his/her employer when the advance IIT was withheld, the individual may be entitled to a refund by claiming the deductions when filing his/her annual return.

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.

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 capitalization; 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.

Transfer Pricing

The CIT Law and its implementation rules establish the basis for the Chinese tax authorities to make special adjustments related to transfer pricing. If two entities are related, all of their intercompany transactions must comply with the arm's length principle. Transactions covered by the Chinese rules include both tangible and intangible transactions, intragroup services and intercompany financing activities.

A related party is defined as one with a 25% direct or indirect ownership. A multi-layer calculation for indirect shareholdings also applies. An entity with significant control over the taxpayer's senior management, purchases, sales, production and the intangibles and technologies required for the business is defined as a related party.

Where intercompany charges or fees do not reflect an arm's length arrangement, the tax authorities may make compensatory adjustments by reference to normal market rates or prices for similar services or goods. In certain cases, the tax authorities are entitled to levy tax retroactively on transactions between affiliated companies that took place up to 10 years ago.

China has adopted the "best method" approach for selecting a transfer pricing method, with no specific ranking required among the following methods: comparable uncontrolled price method, resale price method, cost plus method, transactional net margin method, profit split method and other methods that comply with the arm's length principle.

Contemporaneous documentation requirements encompass a three-tiered framework (i.e. a master file and local file, as set out under action 13 of the OECD BEPS action plan, plus a "special issue" file that must be prepared for cost-sharing arrangements and in certain cases involving thin capitalization). Separate and independently operating sets of thresholds and filing deadlines apply. For example, a local file, which must

be prepared by 30 June of the subsequent tax year, generally is required if the annual amount of related party purchases and sales of tangible goods exceeds RMB 200 million; the annual amount of purchases/sales of financial assets or intangible assets exceeds RMB 100 million; or the annual amount of other related party transactions is higher than RMB 40 million.

Enterprises established by multinationals in China with limited functions and risks and that only perform manufacturing/processing, distribution or contract R&D activities also are required to prepare and submit contemporaneous documentation if they incur a loss.

There are rules on cost-sharing agreements and advance pricing arrangements (APAs). APAs can be unilateral, bilateral or multilateral, and are valid for three to five years. An APA generally is available to an enterprise with an annual related party transaction amount reaching RMB 40 million during the three years before the year in which the tax authorities accept the enterprise's intent to conclude an APA. The tax authorities may reject the application if the enterprise fails to fulfill its obligations to report related party transactions or prepare contemporaneous documentation. The APA process generally includes six phases, including a prefilling meeting, intent for an APA, analyses and evaluation, formal filing, negotiations and signing and monitoring and execution.

Aligned with the BEPS action 13 recommendations, China has introduced country-by-country reporting (CbC) forms into the annual income tax filing package for enterprises. In general, CbC reporting forms are required for resident enterprises that are the ultimate parent of a multinational group with consolidated revenue over RMB 5.5 billion, or appointed by the multinational group as the filing entity. There also are provisions that allow the Chinese tax authorities to request copies of the CbC report upon performing an official tax audit in a situation where they cannot effectively obtain the CbC report from the relevant overseas tax authorities through other information exchange mechanisms.

CFC Rules

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

the foreign enterprise is controlled by resident enterprises or resident individuals;

the foreign enterprise's effective tax rate is lower than 12.5%; and

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.

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.

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 Capitalization

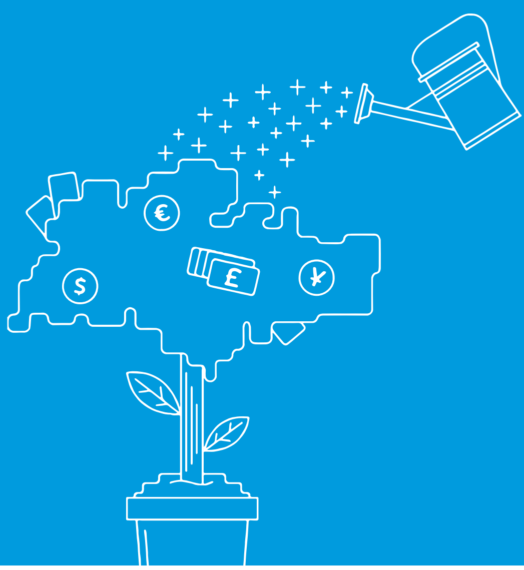
The new CIT Law restricts interest deduction for debt investments from related parties in excess of a prescribed debt-equity ratio. The Ministry of Finance and SAT have formulated the prescribed debt-equity ratio as below:

- Financial Institutions: 5:1
- 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.



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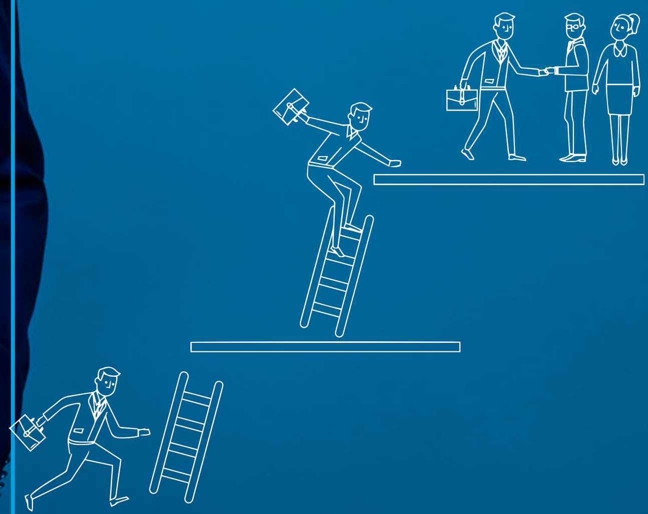
Employment



EMPLOYMENT

Foreign Visa and Work Permit

Types of Visas

All foreign nationals entering, leaving, passing through or residing in China must obtain the relevant visas from the relevant Chinese authorities, which include the Chinese diplomatic missions, consulates and other representatives in foreign countries and the Ministry of Public Security, the Ministry of Foreign Affairs or local designated authorities within China.

Depending on the status and type of passport held by a foreign national, a diplomatic, courtesy, business or ordinary visa may be issued. Ordinary visas are designated by letters that correspond to the purposes of the individuals' visits. The following are selected letter designations:

D: Issued to a person who plans to reside permanently in China;

Z: Issued to a person who will work in China;

X: Issued to a person who enters China for long-term (X1) or short-term (X2) study purposes;

F: Issued to a person who has been invited to visit China on a temporary basis for the following purposes:

- Scientific, educational, cultural, health and athletic exchanges;
- Short-term visits and fact-finding;
- Other non-commercial activities;

M: Issued to a person who performs business or trade activities for a short period;

R: Issued to a person who is considered by the Chinese governments to be a senior-level talent and/or professional in short supply in China;

Q: Issued to a person for visiting family who is either a Chinese national or foreign national with permanent residency status in China for long-term (Q1) or short-term (Q2) purposes;

S: Issued to a dependent of a foreigner who resides in China because of work and study for long-term (S1) and short-term(S2) purposes;

J: Issued to foreign journalists or media staff of foreign news organizations in China for long-term (J1) or short-term (J2) purposes;

G: Issued to a person who passes through China in transit; and

L: Issued to a person who enters China for tourist purposes.

Obtaining Visas

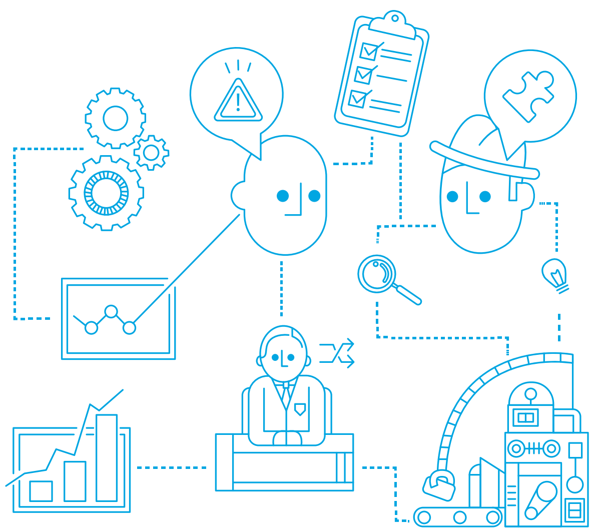
Foreign nationals who wish to enter China should apply for visas at a Chinese diplomatic mission or consulate or with other representatives in foreign countries authorized by the Ministry of Foreign Affairs.

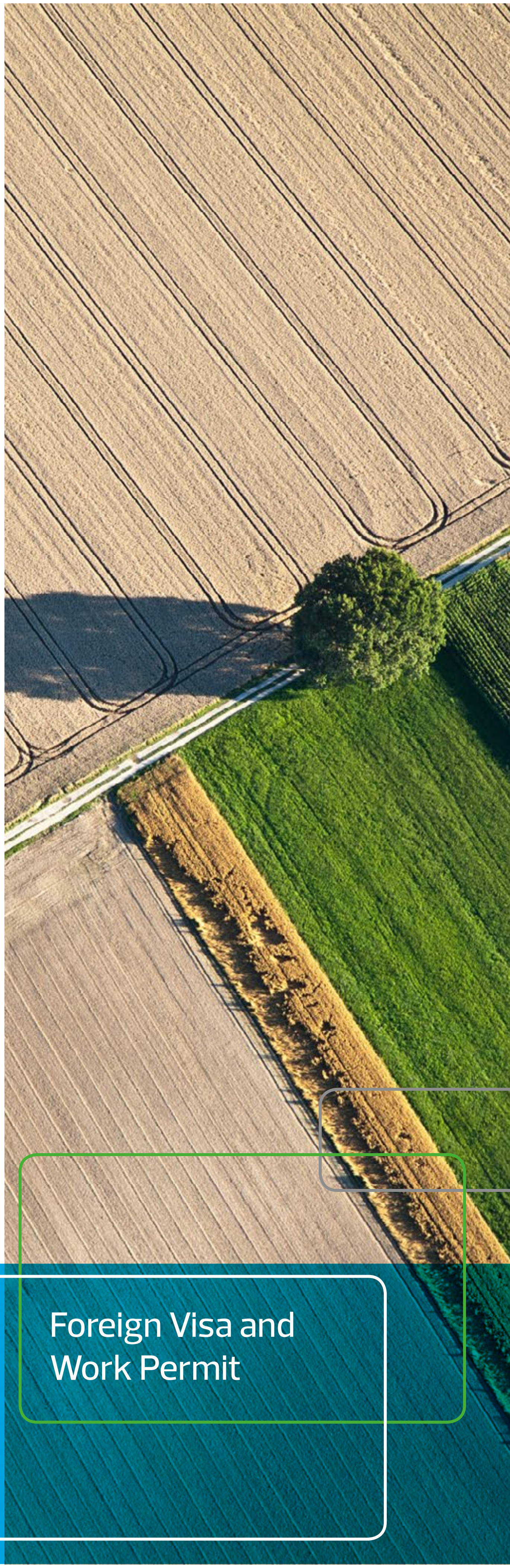
When applying for an entry visa, if a foreign national intends to take up permanent residence or stay in China on a long-term basis, he or she must present a notarized medical report issued by a public health and medical unit designated by the Chinese embassy in the foreign national's home country, or issued by any authorized health and medical unit in China. The medical report must remain valid for six months from the date of issuance. A non-criminal report issued by the police or public security or judicial authorities from the foreign national's home country is also required for a permanent resident or long-term resident permit application in China. In some cities, the non-criminal report must be authenticated by the Chinese embassy in the home country.

Residence Permits

Foreign nationals may obtain residence permits from the local Public Security Bureau. The term of the resident permit varies from one to five years, depending on the purpose of residence. The renewed permit is normally valid for one to five years.
Foreign nationals holding residence visas (including D, J1, S1,Q1, X1 and Z visas) must apply for their resident permit with the local Public Security Bureau within 30 days after their entry.

Foreign nationals holding entry visas are required to register with the local police and obtain a Registration Form of Temporary Residence within 24 hours after their arrival.





Foreign Visa and Work Permit

Employment Permits

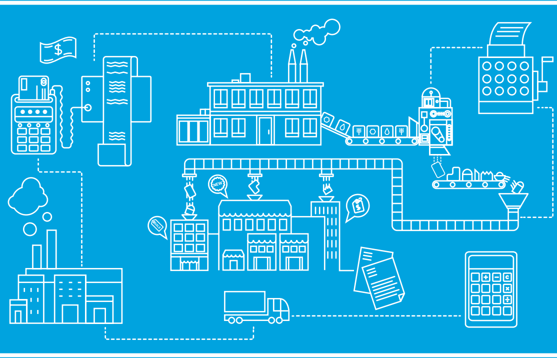
There are no restrictions on the number of foreign personnel that may be employed by a foreign investment enterprise or foreign business in China, nor is there a time period imposed on their employment. Foreign investment enterprises are required to submit resumes of their foreign employees to the local labor bureau for assessment. The application for employment permits for foreigners may not be approved. It depends on the labor 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 labor bureau will issue an Employment License 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 License 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 labor 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.



Family and Personal Considerations

Family members. Family members of a working expatriate do not automatically receive the S visa and residence permit and must apply for it independently. These applications are completed after the expatriate obtains a work authorization in China. Subject to the decision of the local government and schools, children of working expatriates may be required to obtain student visas to attend schools in China.

Marital property regime. No community property or other similar marital property regime is in effect in China.

Forced heirship. Forced heirship rules do not apply in China.

Driver's permits. China has driver's license reciprocity with Belgium. Foreign nationals from other countries may not drive legally in China with their home country driver's licenses, but they may take written exams and exchange their driver's licenses for Chinese licenses.

China Labor Law

There are many regulations governing various aspects of human resources. Some of the major ones are the Labor Law, Labor Contract Law, Social Contributions regulations and Salary Payment regulations etc.
The regulations include sections on labor 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 labor contracts, working hours, holidays, wages, occupational health and safety, the protection of women and minors, vocational training, social insurance and welfare, labor disputes, and supervision and inspection.
Provisions in Chinese laws and labor contracts regulate the employer-employee relationship in a foreign investment enterprise. Any labor contracts should be separate contracts taken out with individual workers, although many sign one contract with the labor union which acts on behalf of all workers [Ministry of Labor Social Security MOLSS (1994) No.485]. The latter procedure regulates the enterprise's relationship with the labor union as well as with its employees.

Foreign investors should also be guided by the following labor 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

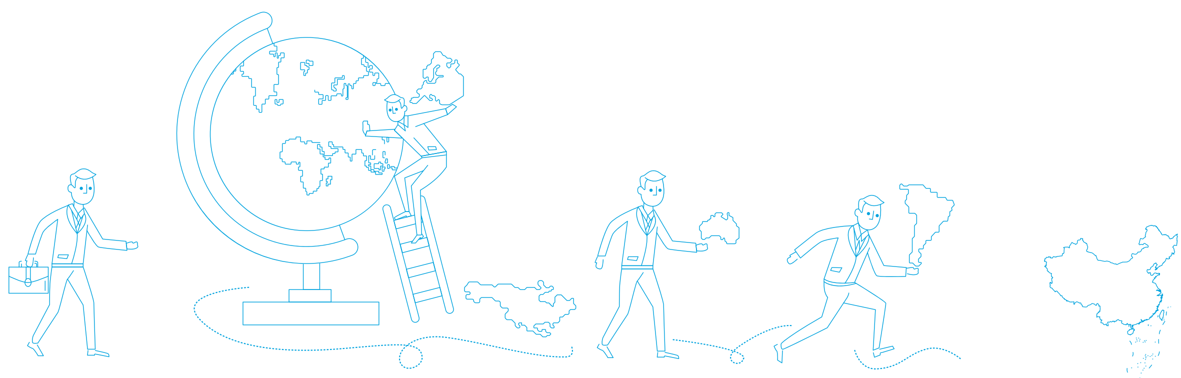
Employee Rights and Remuneration

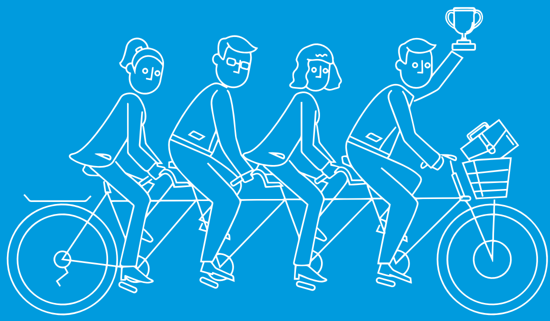
Separate labor regulations govern unemployment insurance, work-related injury insurance maternity insurance, employment of foreigners, labor dispatch and rules on collective labor contracts. The government continues to issue new regulations on labor-related issues. There are laws on preventing and controlling occupational diseases, toxic products in the workplace and the use of child labor (employment of those younger than age 16).

Employees in all types of enterprises have equal rights to select an occupation and obtain employment, receive remuneration for their work and take holidays and receive vocational training, social insurance and welfare benefits.

Employee rights and obligations must be clearly specified in a written labor contract and must include provisions covering the term of the contract, job description, labor protection and conditions, remuneration, labor discipline and conditions for breach and termination. Various probation periods may be granted, with the term depending on the length of the contract. No probation period is required for employment contracts with a term of less than three months or those aimed at the completion of certain tasks. The employer is liable for economic damages to a previous employer if it recruits that employer's employees before the completion of their original labor contracts.

Only imminent bankruptcy and major production problems can justify layoffs due to redundancy. Trade unions may object to dismissals they consider inappropriate.





China Labor Law

If any of the following circumstances makes it necessary to reduce the workforce by 20 persons or more, or by less than 20 individuals that account for at least 10% of the total number of the enterprise's employees, the employer may reduce the workforce after it has explained the circumstances to its trade union or to all of its employees 30 days in advance, has considered the opinions of the trade union or the employees and subsequently has reported the workforce reduction plan to the labor administration department:

- Restructuring occurs pursuant to the Enterprise Bankruptcy Law;
- "Serious difficulties" occur in production and/or business operations;
- The enterprise changes production, introduces a major technological innovation or revises its business method, and, after the amendment of employment contracts, still needs to reduce its workforce; or
- There are other major changes in objective economic circumstances relied on at the time employment contracts were concluded that render the contracts unperformable.

The employer is responsible for health and safety measures and must pay social insurance and housing fund contributions to the local governments on behalf of its employees. Social insurance includes a pension, medical care, unemployment, work-related injuries and maternity insurance. The employer also may purchase commercial medical insurance or other additional commercial insurance for its employees from insurance companies.

Working Hours

China generally operates an eight-hour work day or 40-hour work week for all employees. Employees are guaranteed at least one day off per week, and overtime should not exceed 36 hours per month. The local labor bureau and unions should ensure that employees receive rest and over time entitlements.

Wages and Benefits

Wages must be paid according to the principle of equal pay for work of comparable value. Apart from meeting minimum wage requirements, FIEs and State-Owned Enterprises (SOEs) are free to set their own wages.

Time wages are calculated on the basis of 21.75 work days per month under the standard eight-hour day/40-hour work week. The regulations permit payment on an hourly, daily, weekly or monthly basis.

Housing and schooling allowances, perks and hardship pay commonly are added to a foreign employee's salary. Wages and salaries for Chinese staff vary by region, and total labor costs can be higher than basic wages in some companies, with a range of benefits and subsidies making up the balance.

Each province or municipality must set a minimum wage.

A JV may determine its wage scales independently of the rates of the Chinese partner and other Chinese enterprises. The foreign partner in a JV often negotiates a wage scale with the Chinese partner or local labor service bureau and includes this in the labor contract, spelling out what benefits and subsidies are included and which party is responsible for them.

Pensions and Social Insurance

Several pieces of legislation covering specific social security needs have been implemented nationwide, according to which the contribution rates and contribution base will be determined by the city-level authorities following guidelines issued at the central level. As noted above, foreign individuals legally working in China generally are required to participate in the social security scheme unless otherwise agreed in bilateral agreements entered into by China.

Some large multinationals have implemented an enterprise annuity (EA) for local employees as a way to attract and retain staff. To establish a multi-tiered social security system, which ensures a better quality of life for local employees after retirement and enhances the existing social security system, the former Ministry of Labor and Social Security (currently Ministry of Human Resources and Social Security) has introduced legislation on EAs. The EA, considered the corporate pension plan, is an occupational voluntary defined contribution scheme applicable to all local employees. An EA must be set up under a trust arrangement, and the trustees must appoint EA service providers (i.e. the plan administrator, the custodian and the investment manager) to jointly manage the EA.

The social security regulations set up a three-tiered structure: basic pension, personal accounts and supplementary schemes. The system requires employers (including state-owned, collective, foreign investment, private and joint stock enterprises) to contribute approximately 20% of basic payroll for the basic pension portion; most funds enter into a municipal-run pension fund. However, this fund eventually will be transferred to a provincial pension pool to fund the basic pension. The actual percentage of contribution varies throughout the country, since the percentage is set by the local authorities.

The employee contributes 8% of his/her salary to a personal account, which normally is portable if the employee changes employers.

The employer and employee can voluntarily establish a supplementary scheme, and the employer is given some discretion in designing these plans. The employer can pay the entire monthly contribution or share the burden with the employee, but the employee portion may not exceed 50% of the total.

Under the social security system, benefits on retirement are as follows:

- If contributions have been made for at least 15 years, a monthly payment equal to a certain percentage (depending on the length of the contribution period) of the average amount of the previous year's provincial or municipal average monthly salary and contribution base is payable from the basic pension fund, plus a certain percentage (variable upon the retirement age) of the personal account balance.
- A benefit equal to the remaining balance in the personal account is payable to a designated beneficiary upon the death of the employee.
- If contributions have been made for less than 15 years, a lump sum equal to the personal account balance is payable.

The unified pension regulations cover only urban employees and not those living in the countryside, although the longer-term objective is to extend coverage to the rural population.

Contributions to unemployment insurance vary by city. Employers in Shanghai, including FIEs, are required to pay the equivalent of 0.5% of total payroll for unemployment insurance funds and employees must pay 0.5% of their wages; government agencies supply an unspecified amount.

An employee is entitled to unemployment insurance benefits after involuntary dismissal for up to two years while actively seeking new employment. If the individual has not found employment at the end of this period, he/she is entitled to regular benefits.

As agreed by the local authorities and supported by local policies, many JVs pay a single sum to a comprehensive insurance scheme administered by the Labor Services Bureau.

Employer contributions to a housing fund vary by city. In Beijing, the government requires all enterprises, including FIEs, to contribute 5%-12% of an employee's monthly salary to the Housing Provident Fund, up to a maximum of three times the average monthly earnings in Beijing in the previous year. In Shanghai, the most recent adjusted employee's contribution rate includes a 5%-7% basic portion and a 1% to 5% complementary portion, together with maximum and minimum limits for contributions.

Other Benefits

There are 11 state holidays. Employees who have been with a company for more than one year enjoy statutory paid annual leave from 5 to 15 days, depending on their seniority. Most employees of FIEs are entitled to more than 15 days of annual leave, according to the FIE's company policies. Employees separated from their families may be entitled to additional leave.

Termination of Employment

The Labor Law allows an FIE to dismiss an employee (without advance notice) if the employee does not fulfill the requirements during the probation period, or if he/she "seriously" violates labor discipline or company regulations, is "seriously" derelict in his/her duties or engages in graft, favoritism or other activities that cause "serious" damage to the employer. An employee may be dismissed for other reasons under particularly egregious circumstances.

If an employer terminates an employment contract during the probation period, an explanation must be furnished to the employee.

An employer may dismiss an employee with one month's written notice or one month's wages in lieu of notice if the employee remains incompetent after training or rearrangement of duties, or where there are "major" operational or production difficulties. The trade union must be notified 30 days in advance. Employees dismissed because of major difficulties must be given priority if the same enterprise recruits employees within the following six months. Trade unions are entitled "to object" to dismissals they deem inappropriate. If disputes arising from such dismissals cannot be resolved, the courts or labor arbitration tribunals should handle the matter, with union representatives retaining the right to assist with such actions.

An employee also has the right to terminate employment, provided he/she notifies the employer 30 days in advance, or three days in advance within the probation period. In certain cases, an employee can choose to terminate employment without notice (e.g. when the employer fails to pay wages or fails to pay social insurance according to the law).

The Labor Law requires an employer to make severance payments, with the amount governed by local regulations. An employee must be paid severance pay based on the number of years worked with the employer, at the rate of one month's wage for each year worked. Any period of at least six months but less than one year is counted as one year. The severance payable to an employee for any period of less than six months is one-half of his/her monthly wages.

If an employee's monthly wage is greater than three times the average monthly wage of employees in the employer's area, as published by the authorities, the rate for the severance pay is three times the average monthly wage of employees and may cover no more than 12 years of work. The term "monthly wages" means the employee's average monthly wage for the 12 months before the termination or ending of his/her employment contract.

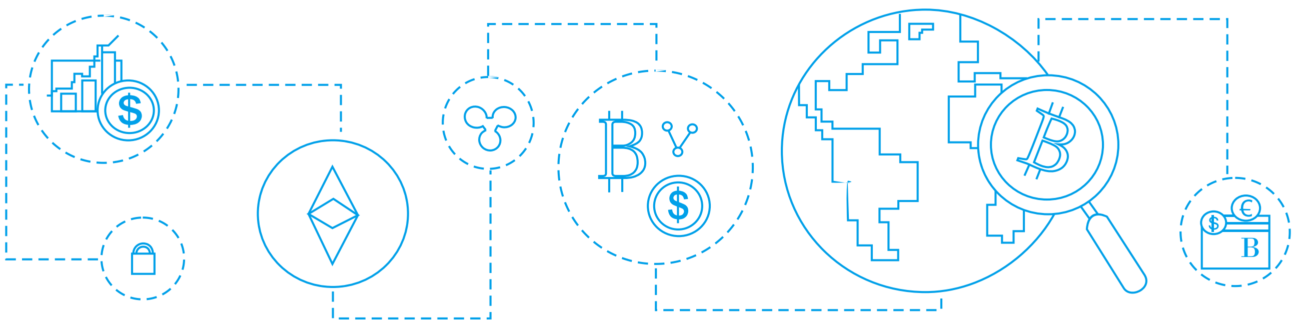
Labor-management Relations

China has a single trade union, the All-China Federation of Trade Unions (ACFTU), with local chapters at the factory level. Independent trade unions are not permitted. Chinese national law requires JVs to permit the formation of unions; in many areas, local regulations require the unionization of JV workforces. Domestic and foreign investment firms should consult with trade unions to conclude collective labor contracts.

In many FIEs, unions may be responsible for distributing wages, bonuses, housing and other payments to employees. Union representatives have the right to attend board meetings when labor matters are under discussion. They also may negotiate with management on behalf of individual employees. Each month, FIEs must contribute 2% of total wages (including those payable to expatriate employees) to the trade union fund, and this contribution normally is deductible for EIT purposes if valid supporting documents are provided.

The employee or the employer can take disputes to the labor dispute mediation committee in its own employing unit. Such committees, headed by a trade union representative, comprise staff, employee and trade union representatives. If mediation fails, the employee or employer may take the dispute to a tribunal organized under the local Labor Service Bureau. The committee is headed by an appointee of the bureau and includes representatives of the bureau, the trade union and the employing unit. Arbitration awards generally must be rendered within 60 days of submission. Parties dissatisfied with an award may appeal to the People's Court within 15 days.

The burden of proof is on the employer in disputes arising from a decision to dismiss or lay off an employee or reduce an employee's remuneration. The employer also is liable for paying remuneration or damages to an employee who has worked under especially harsh conditions, has been made to work long hours or has otherwise had his/her rights curtailed.



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Accounting

ACCOUNTING

Accounting Regulations and Standards ("Old GAAP")

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 Generally Accepted Accounting Principles (GAAP).

The accounting regulations and standards still adopted by some non-listed companies and many Foreign-invested enterprises 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 ("New GAAP")

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 old GAAP mentioned in the preceding section. Other companies adopted the "Accounting System for Business Enterprises" and the supplementary regulations thereto.

The new standards are listed as follows:

Basic Standard

1. Inventories
2. Long-term Equity Investments
3. Investment Properties
4. Fixed Assets
5. Biological Assets
6. Intangible Assets
7. Exchange of Non-monetary Assets
8. Impairment of Assets
9. Employee Benefits
10. Enterprise Pension Funds
11. Share-based Payments
12. Debt Restructurings
13. Contingencies
14. Revenue
15. Construction Contracts
16. Government Grants
17. Borrowing Costs
18. Income Taxes
19. Foreign Currency Translations
20. Business Combinations
21. Leases
22. Financial Instruments: Recognition & Measurement
23. Transfer of Financial Assets
24. Hedging
25. Direct Insurance Contracts
26. Reinsurance Contracts
27. Extraction of Petroleum and Natural Gas
28. Changes in Accounting Policies & Accounting Estimates & Correction of Errors
29. Events after the Balance Sheet Date
30. Presentation of Financial Statements
31. Cash Flow Statements
32. Interim Financial Reporting
33. Consolidated Financial Statements
34. Earnings per Share
35. Segment Reporting
36. Related Party Disclosures
37. Financial Instruments: Presentation and Disclosures
38. First Time Adoption of Accounting Standards for Business Enterprises

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

China issued New GAAP in 2006, whilst many FIE's continue to apply Old 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
Assets		
Property, plant and equipment(PPE) / Fixed assets	Subsequent revaluation is only allowed in restructuring of a State-owned enterprise (an "one off" revaluation). Re-defines residual value as "an amount an enterprise would currently receive for the asset if the asset were already of the age and in the condition expected at the end of its useful life." Requires a review of the residual value and the useful life of an asset, as well as the depreciation method applied to an asset, at least at each financial period end. Old GAAP requires an enterprise to conduct such a review on a periodic basis.	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 GAAP. In practice either held as inventory or other non-current assets at cost. Under New GAAP, fair value model is also allowed for subsequent valuation of investment properties where there is a readily determinable market value, but in practice only in limited scenarios. When fair value model is adopted, 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.
Amortization of intangible assets	Under Old GAAP, amortization 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.
Software costs	Classified as intangible assets. Under New GAAP, software may be capitalized with equipment in fixed assets if it is embedded in hardware and cannot be separated.	These can be classified as intangible assets or fixed assets.
Pre-operating expenses	Under Old GAAP, pre-operating expenses are capitalized 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 under Old GAAP. Similar to IFRS under New GAAP. Under new GAAP, development cost could be capitalized when certain criteria (similar to those specified under IFRS) are met.	Research costs expensed when incurred .Development costs could be capitalized when certain criteria are met.
Borrowing costs	Under old GAAP, capitalization of borrowing cost is only permitted for fixed assets funded by specific loans with a longer construction period with reference to the weighted average capital expenditure. Under New GAAP general borrowing costs may capitalized, while capitalization is required for a broader range of assets, including inventories and intangible assets. The amount to be capitalized is determined by approaches similar to those under IFRS.	Before 2009 there was a choice of expensing or capitalizing borrowing costs on loans designated for specific purposes. Now similar to Chinese GAAP. Impairment provision for non-current non-financial items may not be reversed after recognition under New GAAP, whilst reversal was permitted under Old GAAP.
Impairment of non-current non-financial assets	Impairment provision for non-current non-financial items may not be reversed after recognition under New GAAP, whilst reversal was permitted under Old GAAP.	Impairment provision for non-current non-financial items (other than goodwill) can be reversed if the recoverable amount of the item increases subsequently.
Inventories	New GAAP prohibits the use of the LIFO formula to assign the cost of inventories. New GAAP standardizes the measurement principle for inventories and removes the exemption for commodity distribution enterprises available in Old GAAP.	Accounted in accordance with IAS 2.

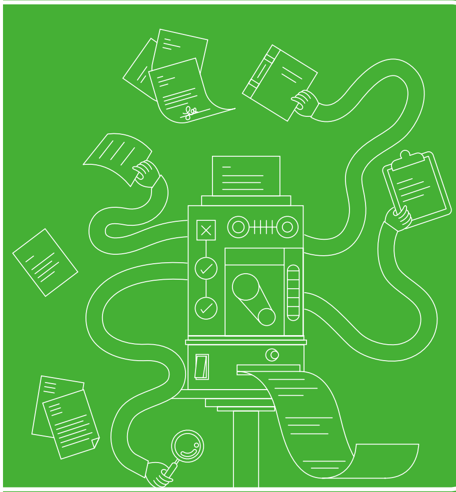
	Chinese GAAP	IFRS
Consolidation / investments		
Investment in subsidiaries	Under old GAAP, accounted using the equity method in the Holding Company's entity accounts. Under new GAAP, accounted using the cost method in the Holding Company's entity accounts.	Accounted for either at cost or at fair value through Profit and Loss.
Jointly controlled entities	Under old GAAP, equity method of accounting of the results in the venturer's entity accounts, and proportionate consolidation is used in the venturer's consolidated financial statements. Under New GAAP, The equity method instead of proportionate consolidation shall be use to account for equity interests in jointly controlled entities.	Proportionate consolidation is the current preferred method, while equity combination is permitted. Note that the proportional consolidation method will no longer permitted after 2013.
Business combination	Under old GAAP, purchase method is adopted, and the definition of "business combination" is only limited to combination of two or more legal entities into one legal entity. Under old GAAP, there are three types of enterprises that are required to prepare consolidated financial statements. Other enterprises may also choose to prepare consolidated financial statements voluntarily. Under Old GAAP, certain subsidiaries are exempted from consolidation, where total assets, sales revenue and profits of the subsidiary are less than 10% of the corresponding amount of the group, subsidiaries declared bankrupt, subsidiaries engaged in specific industries. New GAAP specifies the scope of consolidation shall be determined based on "control". All subsidiaries under the control of a parent shall be consolidated. For a business combination not under common control, the identifiable net assets of the subsidiary shall be adjusted to their fair values at the date of acquisition. New GAAP also prescribes accounting for business combinations under common control, where the pooling of interest method should be used. In assessing an enterprise's ability to control another enterprise, the effect of "potential voting rights" shall be considered. The equity method instead of proportionate consolidation shall be used to account for equity interests in jointly controlled entities.	Only the purchase method is permitted. Business combinations involving entities under common control are out of scope of IFRS 3 on business combinations, whilst the pooling of interest method is generally applied.
Excess of cost of investment over net assets	Under old GAAP, It is shown as investment difference and amortized 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 amortized but tested for impairment. Negative goodwill is recognized in income statement.
Liabilities		
Government grants	Under old GAAP, grants awarded for technological improvement are accounted in the capital reserve while those awarded as a subsidy are accounted as non-operating income. Under New GAAP, similar to IFRS, while the recognition principle of most government grants remains the cash basis, and the accrual basis is only used if there is clear evidence indicating that the amount of the grant is determined based on a standard scale. Certain government grants are required to be recorded as "investment subsidies" and directly credited to equity, even under New GAAP. Government grants related to assets should be recognized as deferred income and amortized over the remaining useful life of the related assets.	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	Under old GAAP, one-time write-off or write- off over the periods. Under New GAAP, write-off over estimated useful life.	Not mentioned.
Construction contracts	Under old GAAP, direct costs incurred in securing a construction contract are expensed as incurred and does not allow capitalization of borrowing cost of the construction contracts Under New GAAP allow borrowing costs to be capitalized and included as part of contract costs. Direct costs incurred in securing a contract can be included in the contract cost, if material.	If it is probable to obtain the construction contract, direct costs incurred in securing the contract are included in contract costs if can be identified separately and reliably measured.
Waiver of liabilities and donations	Recorded in capital surplus under old standards, and "non-operating income" under New GAAP. In certain cases, waiver of liabilities and donations from controlling shareholder(s) should be regarded as capital contribution from shareholder, therefore credited to equity directly.	This is accounted as income in the income statement.
Employee benefits	Under Old GAAP, there is no specific standard governing employee benefits. Under New GAAP, similar to IFRS, but no accounting requirements of defined benefit plans (rare in China). Appropriation of staff bonus and welfare from retained earnings is reflected as a transfer from retained earnings to liabilities	There are specific guidelines in accounting for employee benefits which are granted under a defined benefit plan or defined contribution plan. Staff bonus and welfare fund appropriated from reserves should be classified as an expense.
Enterprise Pension Funds	Under new GAAP, there is an accounting standard addressing accounting and financial reporting by pension funds, similar to IAS 26.	Accounted in accordance with IAS 26. Investments are held at fair value through profit or loss. Liabilities shall be subject to actuarial assessment.
Income tax	Under old GAAP, income tax can be accounted under the tax payable method, deferral method or liability method. Under New GAAP, only liability method is allowed, and deferred tax is required to be recognized.	Income tax is accounted under the liability method.
Tax payable	Tax payable includes payables for income tax, business tax and Value add tax.	Tax payable only applies to income tax.
Earnings per share	The calculation of EPS is no specific accounting standard under old GAAP. New GAAP requires listed enterprises and enterprises in process of IPO to disclose the basic and diluted EPS, similar to IAS 33. If the number of shares change as a result of a stock dividend capitalization of surplus reserves or share split and share consolidation, but there is no effect to the amount of owners' equity, EPS for all periods presented shall be re-calculated on the basis of the adjusted number of shares.	Accounted in accordance with IAS 33.Basis and diluted EPS have to be disclosed, and EPS is calculated on profit or loss from continuing operations and those for discontinued operations.
Other recognition and measurement issues		
Derivatives	There is no specific standard for derivatives under old GAAP. These are generally disclosed as off- balance-sheet items. Under New GAAP, similar to IFRS.	Governed by IAS 39.
Share-based payments	There is no specific standard under old GAAP, These are generally disclosed as off- balance-sheet items. Under new GAAP, similar to IFRS.	Governed by IFRS 2. IFRS 2 covers the accounting for share-based payment transactions in which services or goods are received.

	Chinese GAAP	IFRS
Presentation and disclosure		
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 merely because they are under common control by the state.	State-controlled entities may claim certain disclosure exemptions under IAS 24 (revised 2009).
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.
Interim financial reporting	Under New GAAP, statement of changes in equity are not required, and interim financial statements must be complete financial statements, that is, confirm to the annual statements.	Interim financial statements in condensed form are permitted.
Cash flow 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.
Segmental reporting	An enterprise that has different operations or operates in different geographical areas are required to provide segment reports under old GAAP. For entities required to present segment reporting, the reportable segment should be based on operating segments, similar to IFRS.	This is only applied to the published financial statements of enterprises issuing or having publicly traded equity or debt securities. The preparation and presentation of segmental reporting is addressed by IFRS 8.

Accounting Regulations for Small Enterprises

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



Accounting Regulations for Small Enterprises

These accounting regulations ("ASSE") were implemented in 2005 to present a simplified accounting framework for small businesses in order to reduce compliance costs and to allow growing enterprises to focus on internal control and business strategy. A further update has been issued in October 2011 that takes effect 1 January 2013, whilst the focus remains on the needs of the tax authorities rather than presenting a true and fair view of the businesses concerned in the context of IFRS.

These accounting regulations are not applicable for the following:

- Sole proprietorships or partnerships
- Members of groups required to comply with full Chinese GAAP (Old or New)
- Small businesses that adopt the Accounting System for Business Enterprises

The following are some of the major features or requirements when applying ASSE as compared with that of big enterprises:

- Historical basis should be used as the measurement basis, and no impairment provision and fair value measurement is required.
- The actual losses of assets are recognized by reference to the corresponding stipulations of the income tax law.
- Some accounting estimates, such as useful life of fixed assets, have been aligned with those in the tax law.
- Simplified accounting for financial instruments, interest is recognized on the date of payment. Effective rate method is not used.

Accrual of liabilities is limited.

Sales of goods are recognized when goods are delivered and the payment is due. Detailed guidance on revenue recognition is provided on this topic, thus no complex professional judgements are necessary.

Only balance sheet and income statements need to be presented. Cash flow statements and statements of changes in equity are optional. It is, however, required to disclose the reconciliation from accounting profit to taxable income.

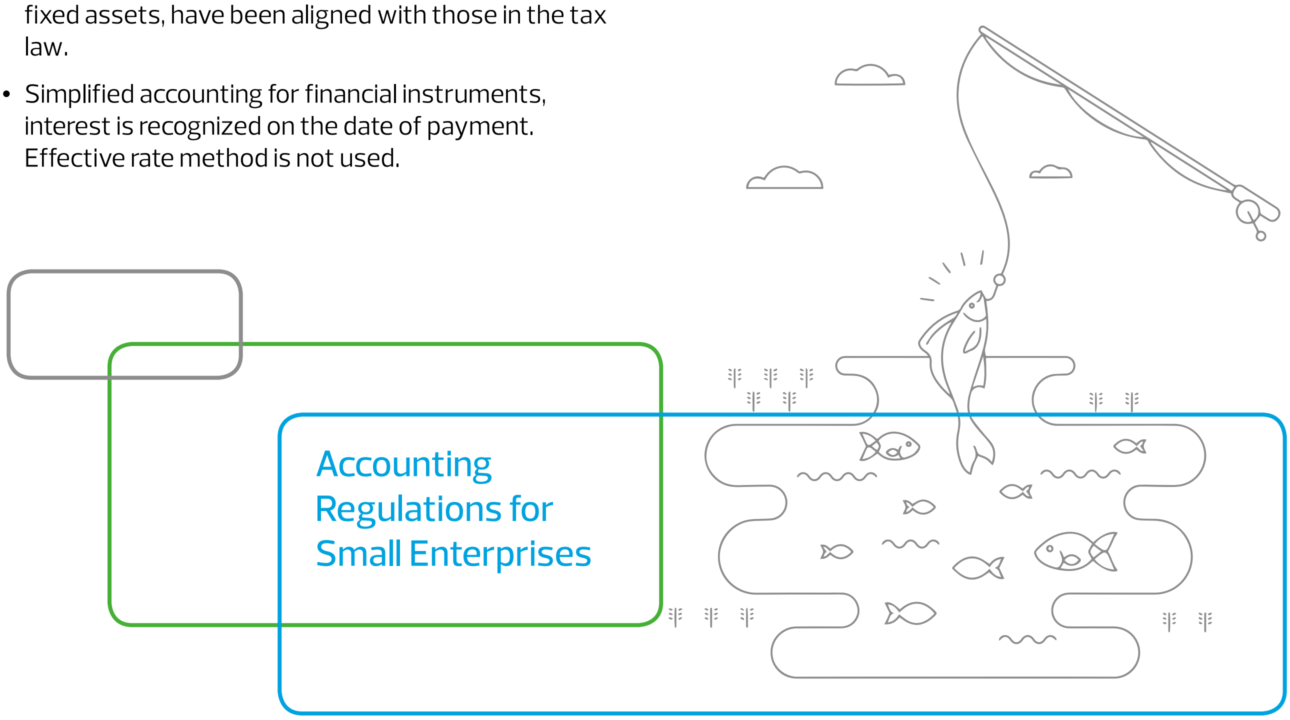
For notes to the accounts, only significant accounting policies and accounting estimates and significant transactions for the financial period need to be disclosed.

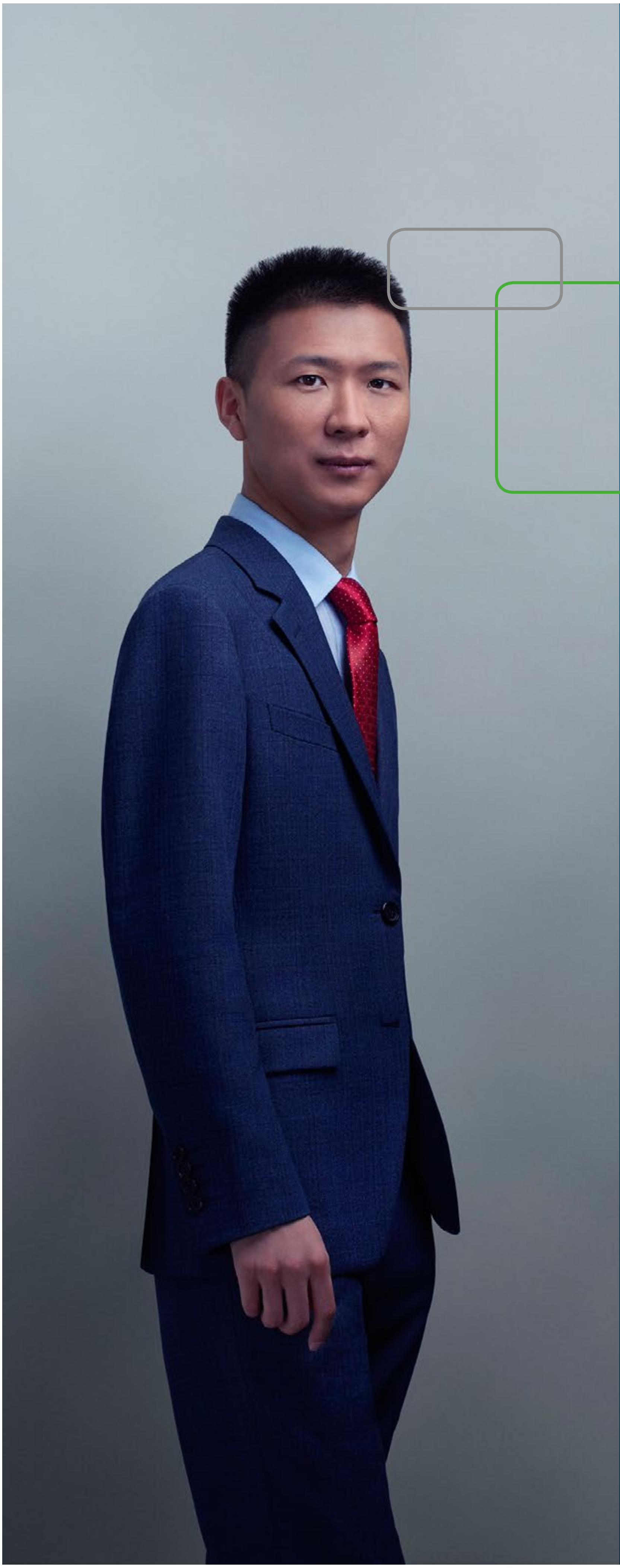
In accounting for tax, the tax payable method is adopted.

Actual cost is used for accounting for inventory whereas retail method and standard costs are permitted under Accounting Regulations for Business Enterprises.

Borrowing costs for specific purposes can be capitalized upon incurring a debt and need not be in line with the incurrence of capital expenditure.

In the event that small enterprises 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 small enterprises.





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Relevant Websites

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 Market Regulation	www.samr.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	www.investbeijing.gov.cn
Beijing Municipal Commission of Commerce	www.bjmbc.gov.cn
Beijing Statistical Bureau	www.bjstats.gov.cn

Investment in Shanghai

Shanghai Foreign Investment Development Board	www.fid.org.cn
Shanghai Foreign Economic Relations and Trade	www.smert.gov.cn
Shanghai Municipal Statistics Bureau	www.stats-sh.gov.cn

Investment in Shenzhen

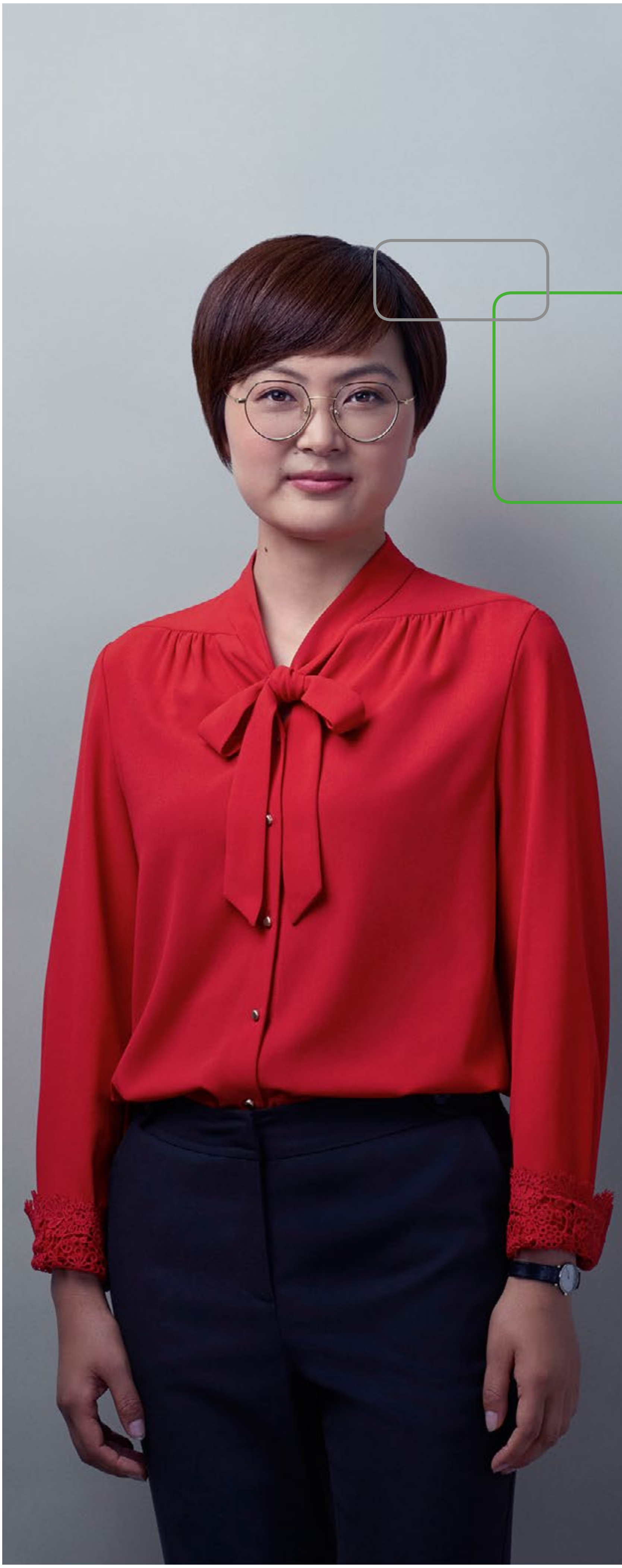
Invest Shenzhen	www.szinvest.gov.cn
Shenzhen Statistical Bureau	www.sztj.com

Investment in Tianjin

Tianjin Economic-Technological Development Area	www.investteda.org
China Tianjin Commerce	www.tjcoc.gov.cn
Tianjin Statistical Bureau	www.stats-tj.gov.cn

International Trade Promotion

China Council for the Promotion of International Trade	www.ccpit.org.cn



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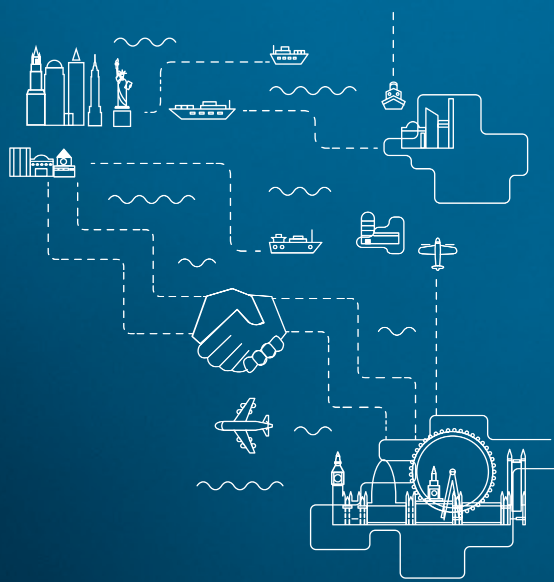
About RSM



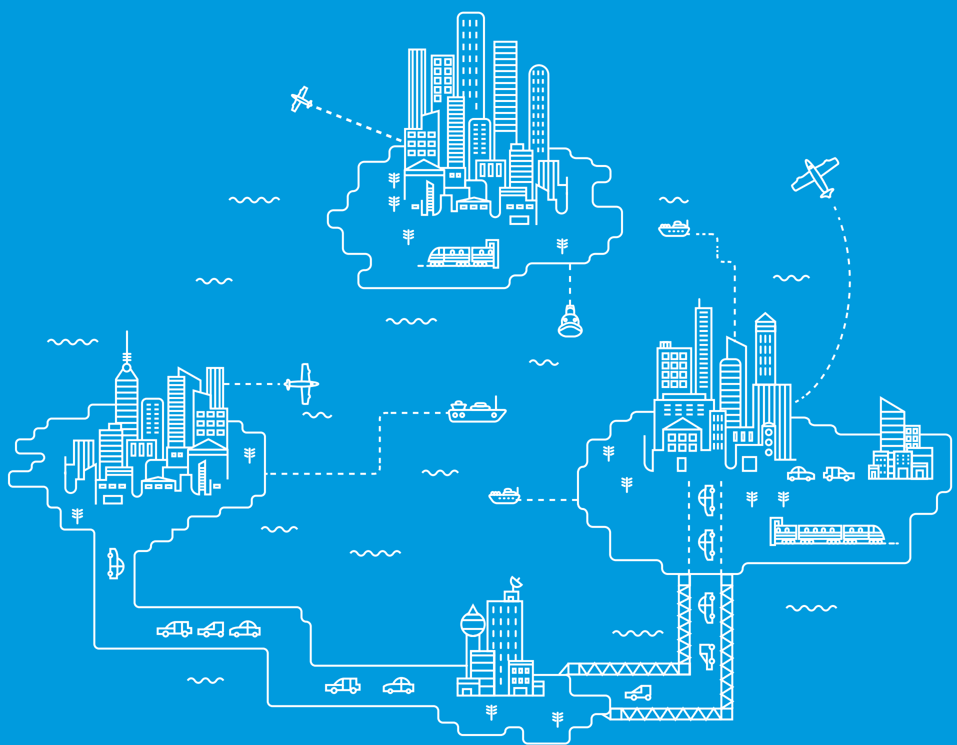
ABOUT RSM

RSM International is represented by independent member firms in 120 countries and brings together the talents of over 43,000 individuals in over 800 offices worldwide. 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 practicing on their own account.

The network's total fee income of US$5bn places it amongst the top six international accounting organizations 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.

RSM China utilizes broad global network and abundant resources in order to dedicate to providing world-class services and higher-quality customer experience. RSM headquarter in China is located in Beijing. As for now, it has more than 120 partners, over 3500 employees and 15 offices in China's major economic centers including Beijing, Shanghai, Shenzhen, Nanjing, Chengdu, Hefei, Fuzhou, Shenyang, Jinan, Nanning, Xiamen, Suzhou, Wuxi, Jiaxing, Wuhu, etc. RSM China is continuing to grow its service network across the country. RSM China's team is comprised of outstanding professionals. With extensive experience in various fields, it provides clients with all-round services including audit/tax/consulting/asset evaluation/project cost management in a comprehensive and integrative way.



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RSM China Overview

RSM CHINA OVERVIEW

World-class Services

As the only member firm of RSM in China, we utilize our broad global network and abundant resources in order to dedicate ourselves to providing world-class services and higher-quality customer experience. We apply our service philosophy 'Domestic Wisdom, Global Vision consistently to all our services.

Broad Service Network

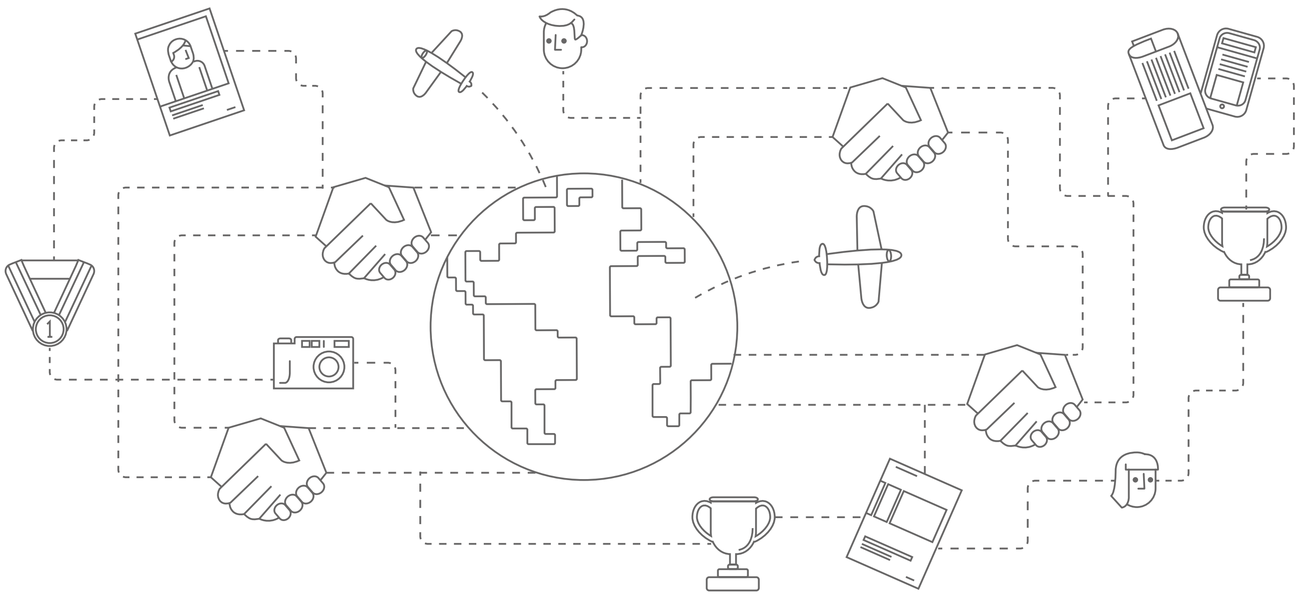
RSM headquarter in China is located in Beijing. As for now, we have more than 120 partners, over 3200 employees and 17 offices in China's major economic centers including Shanghai, Guangzhou, Shenzhen, Xiamen, Chengdu, Shenyang, Jinan, Suzhou, Jiaxing, Nanjing, Hefei, Wuhu, Fuzhou, Wuxi etc. We are continuing to grow our service network across the country.

Professional Team

Our team is comprised of outstanding professionals. With our extensive experience in various fields, we provide clients with all-round services including audit/tax/consulting/asset evaluation/project cost management in a comprehensive and integrative way.

Extensive Professional Experience

We have served a wide spectrum of industries, such as automobiles, electronics, pharmaceuticals, machinery, metal, chemicals, logistics, e-business, consumer products, real estate, food and beverages textiles, financial services, business services etc. Our profound industry experience enables us to deliver distinctive industry-focused solutions.



Our Strong Presence

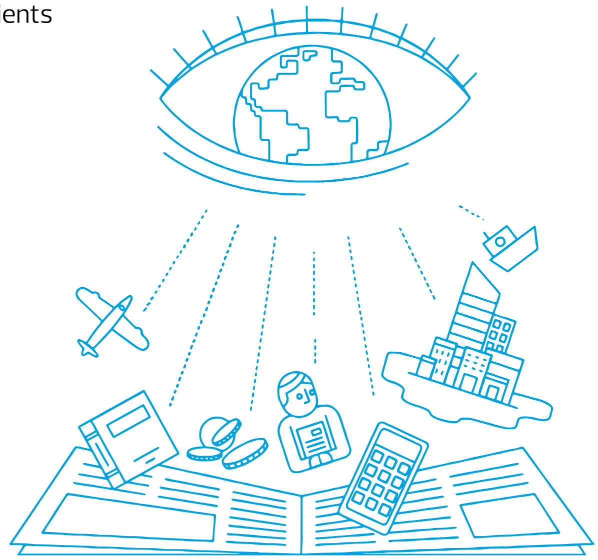
COMBINED REVENUE:

USD 200+M

- 17 OFFICES
- 120+ PARTNERS
- 3,200+ STAFF

Our Market Position

- Revenue of US$200+ million
- Assurance and audit revenue ranked 12th in China market
- Capital market ranked number 5 with 180+ listed companies as clients
- The top 3 A-Share and STAR market IPO auditor in 2019
- A leading tax firm in China market
- New brand name " 容诚 " The Power of Being Understood



Brief Introduction of China Practice

We have been continuously optimizing and updating our solutions, tools and system in order to provide our clients with professional services of highest quality. With our extensive experience in various fields, comprehensive and integrative services, we provide clients with all-round services including audit/tax/consulting/asset evaluation/project cost management etc.

Audit

- Fiscal-year end financial statement audit for Chinese enterprises
- Corporate reform and IPO audit
- Fiscal-year end financial statement audit for Hong Kong enterprises
- IFRS audit
- US GAAP audit
- Corporate bonds issuance audit of private companies
- M&A special audit
- Projections and forecasts
- Annual performance audit
- Agreed-upon procedure engagements
- Audits of internal controls
- Audit of project settlement report
- Capital verification

Tax

- Corporate business taxation solutions
- M&A and supporting services
- Tax Verification
- Transfer pricing solutions
- Customs and international trade
- Inbound/outbound international tax services
- Global employment tax and personal tax services
- Outsourcing
- Tax controversy services
- IPO readiness

Consulting

- Management consulting
- Business process solutions
- Enterprise risk management
- Information technology consulting
- Forensic investigation and disputes services
- Restructuring and reform consulting
- Financial consulting services
- Financing and M&A consulting
- Transaction support services

Valuation

- International joint venture projects
- Domestic joint ventures projects
- Investment to be transferred
- Corporate reform projects
- Asset leasing projects
- Dry mortgage projects
- IPO projects
- Design & simulation of corporate restructuring and investment
- Valuation advisory of corporate investment valuation
- Valuation of special assets
- Valuation of financial statement

Project Cost Management

- Construction cost consulting
- Construction cost management consulting (Whole Process Tracking Audit)

China's Tax and Business Services Overview

We have a dedicated tax service team in China that provides a wide range of business and tax services to multinational corporations and domestic clients. As a senior member of the China Public Accountant Association, we have accumulated vast experience of business and tax practices in China.

Corporate Business and Tax Solutions

- Inbound investment navigation
- Corporate registration, transfer and dissolution
- Tax filing review and declaration
- Corporate income tax annual filing
- Tax incentive negotiation with local government
- Health check of tax compliance
- Tax consulting and planning
- Tax/treaty preferential treatment application
- Tax clearance for cross-border payment

Transfer Pricing Solutions

- Benchmarking analysis
- Supply chain/value chain restructuring
- Intro-group payment settlement
- Transfer pricing risk assessment
- Transfer pricing documentation
- Transfer pricing controversy resolution
- Customs valuation controversy resolution
- Advanced pricing agreement (APA)
- Mutual agreement procedure (MAP)
- Tax arrangement for cost distribution

Outbound Investment Related Tax Services

- Tax and financing advisory on cross-border investments
- Cross-border tax due diligence
- Tax advisory on dividend distribution and exit strategy
- Global transfer pricing planning and supporting services
- Assistance in global subsidiaries' compliance with international investing regulations
- Declaration, review and guidance services

M&A Related Supporting Services

- Pre-transaction planning
- Tax due diligence
- Restructuring and optimization
- Stock transfer agreement review
- Handover of tax related documents
- Post-transaction implementation

Tax Controversy Solutions

- Communication with local tax authorities for special approval, position or suggestions
- Assistance in communication between client and tax authorities to speed up the process
- Negotiation with tax authorities for achieving agreement on tax controversy
- Appealing to tax assessment or requiring re-assessment
- Assistance in tax inspection and tax audit performed by tax authorities

Tax Filing Special Verification and Agency

- Tax certification service in relation to property loss
- Tax certification service in Land Value-added Tax
- Tax certification service in real estate enterprise's tax adjustment
- Tax certification service in R&D deduction and New High-Tech Enterprise status
- Other tax certification services

Customs and International Trade

- AEO application and review
- Business optimization with bonded model
- Advanced rulings application
- Customs valuation/classification controversy
- Import/Export health check
- Supply chain integration and automation
- Export value-added tax refund

IPO Supporting Services

- Stock options incentives and structuring design based on tax planning
- Structuring and operating process planning
- Tax model simulation and rationalization
- Evaluation and clearance of tax risks
- Communication with tax authorities for agreement on special subjects such as transfer pricing

China's Tax and Business Services Overview (Cont'd)

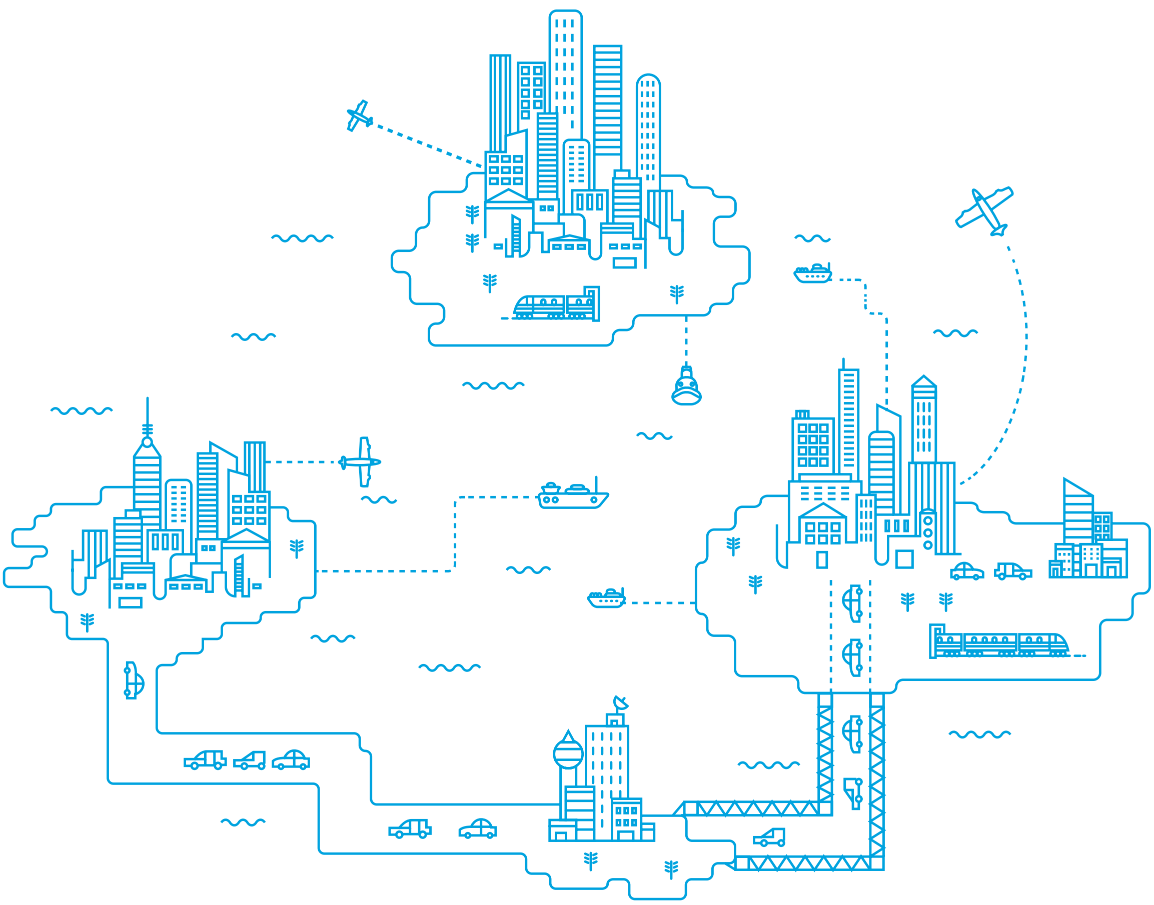
We have a dedicated tax service team in China that provides a wide range of business and tax services to multinational corporations and domestic clients. As a senior member of the China Public Accountant Association, we have accumulated vast experience of business and tax practices in China.

Outsourcing Services

- Tax filing and accounting services
- Cash management services
- Tax filing
- Payroll services & expense-related consulting services
- Outsourcing services for private equity
- Corporate secretarial services

Global Employment Tax and Personal Tax Services

- Expatriate tax services – Policy risk assessment
- Compensation package restructuring
- Cost projection and analysis
- Individual income tax advisory
- Declaration of individual income tax
- Registration for stock option incentives
- Application for tax residence certificate
- Application for preferential tax treatments
- Tax inspection and compliance services
- Application for work permit/work visa
- Split payroll services
- Individual tax consulting
- International investment advisory on global basis
- Personal asset allocation and tax advisory services



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