

DOING BUSINESS

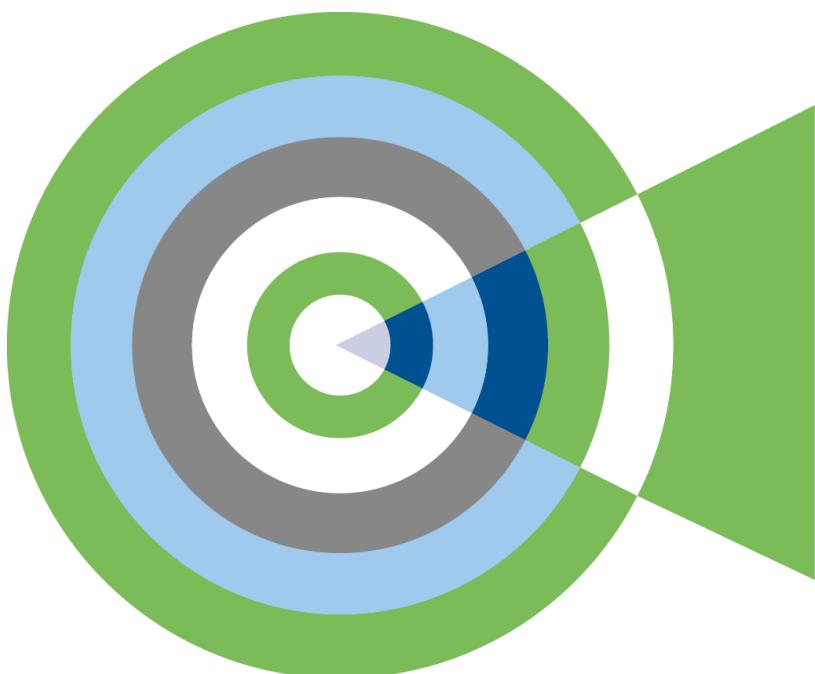
IN CHINA



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing audit, accountancy, business management and consultancy services through financial business centres in around 90 countries worldwide.

Business partners work together throughout the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operation in China has been provided by the office of UHY representative there:

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A detailed firm profile for UHY's representation in China can be found in section 8.

Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at November 2017.

We look forward to helping you do business in China.

2 – BUSINESS ENVIRONMENT

The People's Republic of China (PRC) is situated in eastern Asia and is bounded by the Pacific to the east.

It is the third largest country in the world and has a population of 1.38 billion, which means one out of every five individuals in the world is Chinese.

BACKGROUND FACTS (2016)

| | |
|---------------|---------------------------------|
| Population | 1.38 billion |
| Currency | RMB / CNY |
| Main Language | Mandarin Chinese |
| Exchange Rate | CNY 6.9370 / 1 USD (2016/12/31) |

Attracting foreign investment is one of China's fundamental policies. China is the largest foreign investment recipient country in the world.

With one of the four oldest civilisations in the world, China has a written history dating back 4,000 years and boasts rich cultural relics and historical sites. Chinese inventions include the compass, paper-making, gunpowder and printing.

Over the past centuries, China stood as a leading civilisation, outpacing the rest of the world in the arts and sciences. But in the 19th and early 20th centuries, China was beset by civil unrest, major famines, military defeats and foreign occupation. In 1949, the Communists under Mao Zedong established the new People's Republic of China. After 1978, his successor Deng Xiaoping gradually introduced market-oriented reforms and decentralised economic decision-making.

GOVERNMENT

The Chinese Communist party controls the government.

ADMINISTRATIVE DIVISIONS

There are 23 provinces, five autonomous regions, four municipalities and two Special Administrative Regions of Hong Kong and Macau. China considers Taiwan its 23rd province.

LEGAL SYSTEM

The legal system is a complex amalgam of custom and statute, with a largely criminal law. A rudimentary civil code has been in effect since 1 January 1987 and new legal codes in effect since 1 January 1980. Continuing efforts are being made to improve civil, administrative, criminal and commercial law.

There are three branches of government:

- Executive branch
 - The chief of state is President Xi Jinping (since March 2013)
 - The head of government is Premier Li Keqiang (since March 2013)
 - Legislative branch – the National People's Congress with 2,987 seats; members are elected by municipal, regional and provincial people's congresses to serve five-year terms

- Judicial branch – the Supreme People's Court (judges appointed by the National People's Congress), local people's courts (comprised of higher, intermediate and local courts) and special people's courts (primarily military, maritime and railway transport courts).

The 19th National Congress of the Communist Party of China (CPC) which just concluded in Beijing is a landmark event. It represents that the Party has fortified itself with a new theory - the "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era" and will embark on a journey towards building China into a "great modern socialist country" by 2049. It also marks that the world's second largest economy stands ready to play a bigger role in shaping the world's future agenda and to share the "China Solution" with other countries. These developments will not only bring profound impacts on China's economic and social development in the next 30 years, but also generate significant repercussions at a global scale, given the size of the Chinese economy and its rising influence in the world..

ECONOMY

The Chinese economy has sustained high-speed growth since its opening-up and reform, and China has become the third largest trading nation and the fourth largest economic entity in the world.

The national economy kept stable and comparatively fast growth in 2016. The gross domestic product (GDP) of the year was 10,726.93 billion USD, up by 6.7 percent over the previous year (according to statistics released by China's National Bureau of Statistics in February 2017) the lowest rate since 1999.

China has pledged to transform its economic growth model to be less driven by exports and investment and more by domestic consumption and moving up the supply chain. A slowdown is to be expected during the process. The slower economic growth is generally welcomed as it will ensure steadier growth of the Chinese economy in the future.

Government stimulus measures introduced since early 2012 have helped reverse the slowdown and stabilise growth. In May 2012, the government shifted its top priority from taming inflation to stabilising growth. It has moderately eased its grip over lending, approved massive construction projects and stepped up tax reductions to buoy the economy. As a result, Chinese gross domestic product (GDP) reached CNY 74,412.7 billion in 2016, compared to 6.7% in 2015), ensuring China remained one of the major countries contributing to world economy growth.

In 2016, the world financial crisis entered its ninth year. The basis of the world economic recovery is still fragile with persistent downward pressure on domestic economies. In such a complex international environment, China adheres to scientific development and accelerating the transformation of economic development, while maintaining stability and the strengthening and improving of macro-control to ensure firm growth and to stabilise the operation of the national economy.

KEY FACTS

- The employment continued to grow. At the end of 2016, the number of employed people in China was 776.03 million, and that in urban areas was 414.28 million. The newly increased employed people in urban areas numbered 13.14 million. The urban unemployment rate registered was 4.02 percent at the year end, slightly lower than last year's 4.05 percent. The total number of migrant workers in 2015 was 281.71 million, up by 1.5 percent over that of 2015. The number of migrant workers who left hometowns and worked in other places was 169.34 million, increased by 0.3 percent, and those who worked in their own localities reached 112.37 million, up by 3.4 percent.
- The labour productivity increased steadily. The ratio between GDP and the total employment was 13,669 USD per person, an increase of 6.4 percent.
- The consumer prices were basically stable. The consumer prices in 2016 went up by 2 percent over the previous year. Of this total, the prices for food went up by 3.8 percent.
- The prices for investment in fixed assets down by 0.6 percent. The producer prices and the purchasing prices for manufactured goods were down by 1.4 percent and 2.0 percent respectively. The producer prices for farm products were up by 3.4 percent.
- A number of 46 out of 70 large and medium-sized cities experienced rises of monthly sales prices (month-on-month) for new commercial residential buildings at the end of the 2016.
- The fiscal revenue grew steadily in 2016. The total public revenue reached 2,300.01 billion USD, up by 4.5 percent or an increase of 98.43 billion USD over that in the previous year. Of this total, the taxes collected in the whole year reached 1,879.11 billion USD, up by 4.3 percent or an increase of 78.30 billion USD over 2015.
- The foreign exchange reserve decreased. At the end of 2016, China's foreign exchange reserves reached 3,010.5 billion US dollars, a decrease by 319.8 billion US dollars as compared with that at the end of the previous year. At the end of the year, the average exchange rate was 6.6423 RMB to 1 USD. Depreciation by 6.2 percent over previous year.
- The industrial production grew steadily. In 2016, the total value added of the industrial sector was 3,573.01 billion USD, up by 6 percent over the previous year. The value added of industrial enterprises above the designated size increased by 6 percent.
- The industrial enterprises above the designated size, in terms of ownership, by foreign investors and investors from Hong Kong, Macao and Taiwan grew by 4.5 percent and that of private enterprises grew by 7.5 percent. Profits made in 2016 were 991.83 billion USD, a increase by 8.5 percent over the previous year.

- By the end of 2016, the installed power generation capacity was 1,645.75 million kilowatts, up by 8.2 percent over that of the previous year.
- In 2016, the value added of construction enterprises in China was 713.88 billion USD, up by 6.6 percent over the previous year. The profits made by construction enterprises qualified for general contracts and specialized contracts reached 97.23 billion USD, up by 4.6 percent,
- The investment in fixed assets grew fast. The completed investment in fixed assets of the country in 2016 was 8,742.48 billion USD, up by 7.9 percent over the previous year, or a real growth of 8.6 percent after deducting price factors. To which the investment in the primary industry was 271.56 billion USD, up by 21.1 percent; that in the secondary industry was 3,341.88 billion USD, up by 3.5 percent; and that in the tertiary industry was 4,985.4 billion USD, up by 10.9 percent.
- In 2016, the investment in real estate development was 1,478.75 billion USD, up by 6.9 percent. Of this total, the investment in residential buildings reached 990.4 billion USD, an increase of 6.4 percent, that in office buildings was 94.18 billion USD, up by 5.2 percent, and that in buildings for commercial business was 228.31 billion USD, up by 8.4 percent.
- In 2016, the newly started construction of affordable housing projects in urban areas amounted to 6.06 million units (households), and the affordable housing projects in urban areas basically completed were 6.58 million units.
- The domestic trade sustained steady and fast growth. In 2016, the total retail sales of consumer goods reached 4,790.49 billion USD, a growth of 10.4 percent over the previous year, or a real growth of 9.6 percent after deducting price factors.
- The imports and exports showed a downward trend. The total value of imports and exports of goods in 2016 reached 3,508.52 billion USD, down by 0.9 percent over the previous year. Of this total, the value of goods exported was 1,995.89 billion USD, down by 1.9 percent, and the value of goods imported was 1,512.64 billion USD, up by 0.6 percent.
- The total value of imports and exports of services in 2016 was 771 billion US dollars, up by 14.2 percent. The export value of services was 262.26 billion US dollars, up by 2.3 percent. The import value of services was 508.74 billion US dollars, up by 21.5 percent. The deficit of exports minus imports of services was 246.46 billion US dollars.
- Transportation grew at a rapid and steady pace. The total freight traffic reached 44 billion tons, up by 5.7 percent over the previous year, and the freight flows were 18,529.5 billion ton-kilometres, up by 4 percent. The volume of freight handled by ports above the designated size throughout the year totalled 11.83 billion tons, up 3.2 percent over the previous year, of which freight for foreign trade was 3.76 billion tons, up 4.1 percent. Container shipping of ports above the designated size reached 21.798 million standard containers, up by 3.6 percent.

- In 2016, the total passenger traffic reached 19.2 billion persons, down by 1.2 percent over 2015, and the passenger flows were 3,130.6 billion person-kilometres, grew by 4.1 percent.
- The total number of motor vehicles for civilian use reached 194.4 million by the end of 2016, up 12.8 percent. The total number of cars for civilian use stood at 165.59 million, up 15 percent.
- The turnover of post and telecommunication services totalled 624.82 billion USD, up 52.7 percent over the previous year.
- The year 2016 registered 4.4 billion domestic tourists, up 11.2 percent over the previous year. The revenue from domestic tourism totalled 567.82 billion USD, up 15.2 percent. The number of inbound visitors to China totalled 138.44 million, a increase of 3.5 percent. Of this total, 28.13 million were foreigners, up 8.3 percent.
- The performance of the financial market was generally stable. By the end of 2016, money supply of broad sense (M2) was 22.34 trillion USD, reflecting an increase of 11.3 percent. Money supply of narrow sense (M1) was 7,020.33 billion USD, up 21.4 percent. Cash in circulation (M0) was 980.25 billion USD, up 8.1 percent.
- In 2016, the total social financing reached 2,565.95 billion USD, or 34.60 billion USD more than in 2015 on a comparable basis. Savings deposit in RMB and foreign currencies in all items of financial institutions totalled 22.42 trillion USD at the end of 2016, an increase of 2,263.23 billion USD.
- Loans in RMB from rural financial institutions totalled 1,934.83 billion USD by the end of 2016, an increase of 200.30 billion USD as compared with the beginning of the year. The loans in RMB for consumption use from all financial institutions totalled 3,610.67 billion USD, an increase of 879.31 billion USD.
- Funds raised in 2016 by enterprises through issuing stocks and share rights on stock market amounted to 336.49 billion USD, an increase of 73.35 billion USD from the previous year. The refinancing of A-shares (including rationing shares, public newly issued, non-public newly issued and warrants) received 216.53 billion USD worth of capital altogether, an increase of 66.57 billion USD from 2015. The listed companies financed 119.95 billion USD through convertible bonds, bonds with attached warrants and corporate bonds, an increase of 5.97 billion USD.
- In 2016, 1,184.95 billion USD corporate debenture bonds were issued, a decrease of 216.23 billion USD over the previous year.
- The premium received by the insurance companies totalled 446.29 billion USD in 2016, up 27.5 percent over the previous year.

- The income of urban and rural residents continued to rise. In 2016, the annual per capita net income of rural households was 2,466.63 USD, up by 8.9 percent, or a real increase of 6.8 percent over the previous year. The annual per capita disposable income of urban households was 3,326.94 USD, up by 7.9 percent, or a real increase of 5.7 percent.
- By the end of 2016, a total of 378.62 million people participated in urban basic pension program for staff and workers, a year-on-year increase of 25.01 million.
- A total of 508.47 million people participated in basic pension insurance program for urban and rural residents, an increase of 3.75 million.
- A total of 748.39 million people participated in basic health insurance program, an increase of 82.57 million. Some 180.89 million people participated in unemployment insurance programs, an increase of 7.63 million.
- The educational, science & technology and cultural undertakings continued to develop. In 2016, the post-graduate education enrolment was 1.981 million students with 667 thousand new students and 564 thousand graduates.
 - Expenditures on research and development activities (R&D) was worth 223.44 billion USD in 2016, up 9.4 percent over 2015, accounting for 2.08 percent of GDP. Of this total, 11.50 billion USD was appropriated for fundamental research programs. A total number of 1,163 projects under the National Key Technology Research and Development Program and 224 projects under the Hi-tech Program were implemented. At the end of year, 488 National Key Labs, 131 National Engineering Research Centre, 194 National Engineering Labs and 1276 National Enterprise Technology Centre have been built.

3 – FOREIGN INVESTMENT AND INCENTIVES

China's absorption of foreign investment is an important part of its fundamental principle of opening up to the outside world.

China's policy of attracting foreign investment encompasses:

- Improving the political and legal environment for foreign investment and enhancing legal administration
- Maintaining and improving an open and fair market environment
- Further opening up service industries
- Encouraging foreign businessmen to invest in new high-tech industry, basic industry and supporting industry
- Attracting more multinational companies to invest in China
- Further promoting foreign investment in the central and western regions.

This policy has commanded the world's attention and effectively promoted continuous, fast and healthy development of the national economy. The new leaders of China are expected to keep fundamental policies on foreign investment unchanged so that FDI remains strong.

China has been the largest foreign investment host nation among developing countries for 24 consecutive years. In 2016, China's foreign direct investment rose by 4.1 percent year-on-year to 126 billion US dollars, ranking one of the top in the world after the United States, according to the United Nations Conference on Trade and Development's World Investment Report.

China remained the recipient of the second-largest flows in the world. Meanwhile, the quality of FDI inflows improved, with more into high-end manufacturing and services with high added value.

China's outward investment is more striking. In 2016, investment outflows from China increased by 44.1 percent year-on-year to 170.1 billion US dollars, one of the highest in the world after the United States and Japan. As China continues to deregulate outbound investment, outflows to developed and developing countries are expected to grow further.

China's economic landscape, driven by exports and foreign investment in the past five decades, will change significantly. Outward investment will serve as an important driver for industrial upgrading and economic growth.

It is difficult to predict when China will become a net investor, but the trend is inevitable. The process will accelerate along with the nation's fast economic growth, the increase in Chinese companies' competitiveness and the amount of resources and market share they gain.

The change will lead to a more effective allocation of financial resources for the Chinese economy, as the country holds the world's largest foreign exchange reserves. The new role as a net investor will help ease trade frictions.

The rapid increase in overseas investment by Chinese enterprises is very likely to transform the trade landscape, because profits from the overseas market will lessen the country's reliance on exports, reducing trade frictions and pressure from swelling foreign exchange reserves.

4 – SETTING UP A BUSINESS

China has set up various special zones to serve as ‘windows and bases’ in the fields of opening-up, capital attraction, export enlargement, hi-tech development and regional economy promotion.

These zones have been highly successful and become attractive places for foreign investment and the main centres for export.

There are seven special economic zones (SEZs), 145 High-Tech Industrial Development zones and 43 bonded areas and 16 Border Economic Cooperation zones most of which are located in economic and technological development zones.

Shanghai Pudong New area, Beijing Zhongguancun Science Park, Wuhan East Lake High-Tech Development Zone, Shanghai Zhangjiang High-Tech Park, Xian High-tech Industrial Development Zone, Chengdu High-Tech Zone, Suzhou Industrial Park, Changsha High-Tech Zone, Tianjin Binhai High-Tech Zone, Nanjing High-Tech Zone and Xiamen Torch High-tech Industrial Development Zone also enjoy preferential policies at state level.

China launched the Shanghai Pilot Free Trade Zone in 2013 as a test bed for deepening market-oriented reforms and boosting economic vitality. The zone is set to explore new ways of reducing government interventions and opening the Chinese economy wider to global investors. In 2015, the Shanghai Pilot Free Trade Zone has become an honorary member of the World Federation of Free Trade.

In a further step toward fully floating China's interest rates, the central bank in December allowed interbank trading of deposit certificates, following the removal of the floor on lending rates in July.

Western regions and north-east regions are becoming popular places for investment following government promotion; Beijing, Shanghai and Guangdong are still China's top three regions for foreign investment.

TOP INVESTMENT REGIONS

BEIJING

Beijing, the capital of China, is the centre of the nation's politics, culture and international exchanges and a modern metropolis full of vitality. The beauty of the city has for hundreds of years attracted visitors to this ancient capital. Beijing has a fully integrated industrial structure. High-tech and modern manufacturing industries have become the leading forces of its industrial growth.

By 2015, the city of Beijing expanded and approved 1,068, an increase of 10.2%, foreign enterprises in six major investment areas, with 9.55 billion USD, an increase 62.5%, the actual utilization of foreign capital, which accounted for 73.5% of the city's total foreign investment.

The Zhongguancun Science Park attracts domestic and foreign investors setting up high-tech enterprises and research and development (R&D) centres, as well as 'incubator' and intermediary institutions.

The Beijing Economic-Technological Development Area has created an industrial structure characterised by pharmaceutical, IT, optical, mechanical and electronic integration and new-type materials industries.

The Beijing Tianzhu Export Processing Area is home to many electronic communication, warehousing and free trade activities, as well as aviation-related industries.

The Central Business District (CBD) functions mainly as a site for the headquarters of domestic and foreign-invested companies, financial institutions and intermediary institutions.

The Financial Street in the Xicheng District has become the most influential area of China's financial sector, controlling 90% of the country's credit funds.

SHANGHAI

Lying in the middle of China's north-south coastline, on the western bank of the Pacific Ocean, Shanghai is a fabled city with glorious historical and cultural heritages. It is the largest city in China and is now becoming an international centre of economy, finance, trade and shipping. So far, 103 countries and regions have invested in Shanghai.

Businesses in Shanghai mainly focus on IT, finance, trade and commerce, motors, real estate and equipment activities. The city has also cultivated new industries such as biopharmaceuticals, modern logistics, new materials and environmental protection, while simultaneously developing fine steels, petrochemicals and fine petrochemicals.

Different development zones in Shanghai boast different features and preferential policies.

The Pudong New Area is the biggest development zone in Shanghai. Financial and trade development zones include Lujiazui Financial and Trade Zone and Hongqiao Economic and Technological Development Zone. Export processing zones include Songjiang and Jinqiao Export Processing Zones. The main industrial zones in the suburban areas have attracted numerous global investments.

Shanghai Pilot Free Trade Zone (PFTZ) is the country's biggest free trade zone. It incorporates various functions including free trade, export processing, logistics warehousing and the displaying of bonded commodities. The PFTZ covers Shanghai Waigaoqiao Free Trade Zone, Waigaoqiao Bonded Logistics Park, Yangshan Bonded Port and Shanghai Pudong Airport Comprehensive Free Trade Zone, Jinqiao Export Processing Zone, Zhangjiang Hi-Tech Park, and Lujiazui Finance and Trade Zone seven regions.

In addition, on August 22, 2013, the State Council approved the establishment of Shanghai Free-Trade Zone (SFTZ). Officially launched on September 29, 2013 with the backing of Chinese Premier Li Keqiang, it is the first free-trade zone in mainland China as a testing ground for a number of economic and social reforms. The Zone introduces a number of reforms designed to create a preferential environment for foreign investment. On September 18, 2013, the State Council of China published a list of 18 service industries to receive more relaxed policies in the zone, including medical services, value-added telecommunications, ocean freight & international ship management and banking. According to the Shanghai Statistics Bureau, close to 22,000 businesses had registered within the PFTZ as of September 2014. 5,050 of which businesses have conducted import and export trades in 2015, an increase of 820, with 114.25 billion USD, fell by 2.7%, accounting for 26.4% import and export value of the city of Shanghai.

GUANGDONG

Located in the southernmost part of China's mainland, Guangdong is adjacent to Hong Kong and Macao with the South China Sea lying to the south.

Guangdong Province is one of fastest-growing economic development regions in China. It has the most advanced foreign economic cooperation and trade, the most dynamic markets and it attracts the most investment.

It has made substantial progress with HK-mainland trade under the Closer Economic Partnership Arrangement (CEPA).

As China's leading province for foreign trade, Guangdong has made important contributions to the economy. According to statistics, in 2015 the city's GDP 278.87 billion USD, an increase of 8.4% last year.

Guangdong Pilot Free Trade Zone (GFTA) officially opened on April 21, 2015. In 2015, newly established foreign-invested enterprises in Guangdong increased 15.7%. The actual utilization of foreign capital grew 42.7%, more than 21.7 billion in US dollars.

Guangdong has established trade relations with more than 200 countries and regions. More than 100 countries and regions have made their investment in the province. The top 500 multinationals have set up 236 enterprises in Guangdong. More than 20,000 foreign-owned enterprises have been approved to settle in Guangdong.

Nineteen countries have set up their consulates-general in Guangzhou. And in spring and autumn every year, the Chinese Export Commodities Fair is held in Guangzhou; likewise, the China Hi-Tech Fair is held in Shenzhen every year.

Guangdong Province has three unique economic zones (SEZ) – the Shenzhen SEZ, Zhuhai SEZ and Shantou SEZ. It also has 6 development zones of national status. There are Zhanjiang Economic and Technological Development Zone, Guangzhou Economic and Technological Development Zone, Nansha Economic and Technological Development Zone, Huizhou Daya Bay Economic and Technological Development Zone, Zengcheng Economic and Technological Development Zone and Zhuhai Special Economic and Technological Development Zone.

BUSINESS STRUCTURES

The possible legal business structures in China are:

- Wholly foreign-owned enterprises (WFOE)
- Sino-overseas equity joint ventures (EJV)
- Sino-overseas cooperative/contractual joint ventures (CJV)
- Foreign-invested companies limited by shares (FICLS)
- Overseas invested financial institutions
- Representative offices (RO).

Other structural forms are:

- Build-operate-transfer (BOT)
- Compensatory trade enterprises
- Contracted projects
- Domestic investment by foreign investment enterprise(s)
- Financial leasing
- Free trade zone trading companies
- Mergers and acquisitions
- Offshore holding companies
- Portfolio investments
- Processing and assembling enterprises (also called contract manufacturing)
- Sales and purchase of goods
- Technology licensing.

In practice, the above business entities are divided into two groups – Foreign Investment Enterprises (FIE) and Foreign Enterprises. An FIE is a People's Republic of China legal entity or unincorporated joint venture in which one or more foreign investors owns an interest of 25% or more. FIEs include Wholly Foreign-Owned Enterprises (WFOE), Sino-Overseas Equity Joint Ventures (EJV), cooperative/contractual joint ventures (CJV), and Foreign Invested Companies Limited by Shares (FICLS).

A foreign enterprise (FE) is a company or other business organisation formed under the law of a country other than China. For example, a Hong Kong company with a representative office in China is an FE, as is a US company which has no People's Republic of China (PRC) presence but derives PRC-sourced income from licences granted to Chinese licensees.

The procedures to establish an FIE are as follows:

- 1) Early-stage preparation (preliminary project proposal) – to select investment projects, investigate marketing, etc.
 - For EJVs and CJVs, co-operative partners will also need to be selected and a non-binding memorandum of understanding or letter of intent signed. Chinese partners will submit a project proposal to the relevant department along with a preliminary feasibility study report
- 2) Application for approval Certificate – all project proposals, feasibility study reports and articles of association have to be approved by state authorities or local authorities (e.g. the Foreign Economic Trade and Relation Commission, Ministry of Commerce) according to the project's nature, industry and investment volume. Usually the authorities should reply (issue an approval letter and a formal approval certificate) to foreign investors or local partners within 30–90 days of receiving all necessary documentation

- 3) Obtaining a licence – an FIE must bring the articles of association, contract and approval documents to the State Administration for Industry and Commerce, or local AIC, for business registration purposes and to obtain a business licence
- 4) Other procedures – these include tax registration, foreign exchange control registration, opening a bank account, registration with the statistics bureau, custom registration, fiscal registration, land use approval and capital verification, etc.

The procedures to establish a representative office are as follows:

- 1) Application for approval – foreign traders, manufacturers, shipping agents, economic organisations and other groups have to report, according to their nature of business, to the Ministry of Commerce or other relevant ministries, committees or bureaux which are authorised to examine and approve the establishment of resident offices
- 2) Business registration – after receiving the approval documents, within 30 days, the representative office as well as its representatives should complete registration with the relevant Administration for Industry and Commerce to obtain a business licence.
- 3) Other procedures – after obtaining a business certificate, the representative offices should register for tax, open a bank account and obtain customs approval for importing office equipment and daily necessities
- 4) Employment of Chinese personnel – if all documents are in order, the registration process to get approval for employing Chinese personnel, and approval for the residency of expatriate representatives etc., normally takes three months.

PROCEDURES FOR MERGERS AND ACQUISITIONS

China has established a legal and regulatory system concerning the right of enterprises to transact and transfer property, including the Company Law and Bankruptcy Law.

Foreign investors can carry out mergers and acquisitions in China upon approval of the relevant government authorities.

GENERAL REQUIREMENTS

- 1) Wholly foreign-owned enterprises (WFOE) – a WFOE is a limited liability company where one or more foreign investors hold the entire equity interest of the FIE and no Chinese investors are involved. WFOEs are becoming more popular and ever more newly approved FIEs are in the form of a WFOE
- 2) Sino-overseas equity joint ventures (EJV) – an EJV is a limited liability company established by at least one foreign investor and at least one Chinese investor where their respective capital contributions determine the proportionate equity interests in the EJV and the sharing of profits and losses. At least 25% of the EJV equity interest is held by the foreign investor in order for it to qualify as a foreign investment enterprise. The equity interest of an investor in an EJV cannot be transferred without the approval of the other investor
- 3) Sino-overseas cooperative/contractual joint ventures (CJV) – CJVs are typically formed to develop projects that have a limited duration and a specific objective. A CJV must be in the form of a limited liability company unless the co-operative contract stipulates otherwise. The parties may also agree to the method and timing of profit distributions, which does not need to follow the equity ratio and may be determined by the contract. Without the approval of the other party, a party cannot transfer its interest in a CJV

- 4) Foreign invested companies limited by shares (FICLS) – an FICLS is a form of FIE that is similar to a regular company in western countries. Its capital is divided into shares. An FICLS can be newly formed or can be converted from an existing JV or WFOE. At least one Chinese shareholder is required. An FICLS can be established by means of promotion or subscription. The minimum amount of registered capital of an FICLS is CNY 30 million, at least 25% of which must be held by foreign investor(s). The establishment of an FICLS is subject to the approval of the Ministry of Commerce in Beijing. A JV or WFOE must have been profitable for the most recent three-year period in order to qualify for conversion into a FICLS. Among the four types of FIE, the FICLS is the least common type
- 5) Representative offices – other than representative offices of consulting firms, law firms and accounting firms, representative offices are generally restricted from engaging in profit-making activities and may not receive fees for services they provide, directly generate income or sign contracts that generate income.

SPECIFIC REQUIREMENTS – INDUSTRIAL DIRECTION CONTROL

‘The Guidance Catalogue for Industries with Foreign Investment’ issued by State Council is the primary basis for guiding the review and approval of foreign investment projects. In the catalogue, foreign investment projects are divided into four categories – encouraged, permitted, restricted and prohibited.

The ‘encouraged’ category includes mainly projects involving new and high technology, advanced technology and technologies that can increase product quality, conserve energy and increase efficiency.

The ‘restricted’ category includes projects that have been sufficiently developed domestically, industries where China is experimenting with foreign investment but would like to retain some protection, and the prospecting and exploiting of rare and valuable mineral resources.

The ‘prohibited’ category includes projects endangering state security or public interest, causing pollution, or using special Chinese arts or technology.

All other projects are considered ‘permitted’ projects.

DEBT-TO-EQUITY RATIO REQUIREMENT

An FIE is required to determine and specify its total investment amount and registered capital in its application when it is formed. The total investment amount is the estimated amount of total funds needed for operation. The registered capital is the capital that must be contributed by each shareholder as equity. The difference between the two is the debt capacity of the FIE.

The proportion of registered capital to the total investment amount indirectly sets out the debt-to-equity ratio (see table below). The debt-to-equity ratio applies only to loans denominated in a foreign currency and does not apply to loans in the local currency. An FIE can borrow in foreign currency only the excess of its total investment amount over the registered capital.

TABLE 1*Investment capital*

| TOTAL INVESTMENT AMOUNT | MINIMUM REGISTERED CAPITAL |
|--------------------------------|---|
| USD 3 million or less | 70% of total investment amount |
| USD 3–10 million | 50% of total investment amount, but not less than USD 2.1 million |
| USD 10–30 million | 40% of total investment amount, but not less than USD 5 million |
| More than USD 30 million | 1/3 of total investment amount, but not less than USD 12 million |

INDUSTRY-SPECIFIC REQUIREMENTS

FIEs are also subject to various industry-specific laws and regulations. The following entities must meet industry-specific laws and regulations issued by different levels of authority:

- Holding companies
- Trading companies
- Export procurement centres
- Research and development centres
- Venture capital enterprises
- Insurance companies
- Financial institutions
- Construction companies or construction engineering companies
- Urban planning companies
- International freight forwarder companies
- Road shipping companies
- Advertising companies
- Convention and exhibition companies
- Medical institutions
- Leasing companies
- Telecommunication companies
- Printing companies
- Video productions distribution companies
- Books, newspapers and periodicals distribution companies
- Travel agencies
- Movie cinemas
- Head-hunter agencies
- Logistics companies
- Civil aviation companies
- Education institutions
- Assets valuation firms
- Law firms
- Accounting firms.

5 – LABOUR

By the end of 2016, the total population in the mainland reached 1.38 billion an increase of 8.09 million over that at the end of 2016. Of this total, urban permanent residents numbered 792.98million, accounting for 57.35 percent.

This trend, resulting from China's successful one-child policy of population control, is anticipated to continue for at least the next 20 years, to 2030.

POPULATION STATISTICS

| | |
|--------------------------|--|
| Population | 1.38 billion |
| Age structure | 0–15 years: 17.7% (total 244.38 million) 16–59 years: 65.6% (total 907.47 million) 60 years and over: 16.7% (total 230.86 million) |
| Life expectancy at birth | Total population: 76 years Male: 73 years Female: 79 years |
| Ethnic groups | Han Chinese: 91.51% Zhuang, Uygur, Hui, Yi, Tibetan, Miao, Manchu, Mongol, Buyi, Korean and other nationalities: 8.49% |
| Religions | Daoist (Taoist): 0.7% Buddhist: 18.2% Muslim: 1.8% Christian: 5.1% Folk Religion: 21.9% Note: officially atheist: 52.2% |
| Languages | Standard Chinese or Mandarin (Putonghua, based on the Beijing dialect), Yue (Cantonese), Wu (Shanghaiese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka dialects, minority languages |
| Literacy | Adult population: 82.5% (people aged 15 and over who can read and write) |

LABOUR FORCE AND COSTS

The government keeps increasing investment in education and the quality of China's labour force has been improved.

China's labour market maintains the situation of supply over demand, so compared with developed countries China has relatively low labour costs.

TABLE 2

Proportions of labour cost

| COUNTRY | PROPORTION |
|---------------|------------|
| United States | 3.5% |
| Britain | 3.2% |
| France | 2.8% |
| Germany | 3.3% |
| Japan | 2.5% |

6 – TAXATION

Beginning in the early 1980s, China made extensive reforms to its tax system to accommodate and reflect its needs during the transition from a central planning economy to a market-based economy.

China uses its tax system to achieve multiple goals. In addition to generating revenue, the tax system helps to regulate economic activity by a set of preferences and incentives on the types and location of business investments and activities, such as tax holidays for manufacturing companies with foreign investors and the encouragement of export trade by allowing refunds of value added tax (VAT) when goods are exported outside China.

The tax system will continue to evolve while China is on its path to becoming one of the world's largest economies. Possible tax reform on the horizon may include equalising the treatment of domestic and foreign enterprises. Another reform may be changing the VAT system from a production-based to a consumption-based system.

TAX ADMINISTRATION

Taxes in China, other than customs duty, are primarily administered by the State Administration of Taxation (SAT), which is a ministry level department directly under the State Council.

The SAT, assisted by state tax bureaus and local tax bureaus, is the principal agency acting for the central government in the levy, collection and enforcement of taxes in China.

Customs duty is administered by the Customs General Administration of PRC (CGA), which is an administrative department directly under the State Council.

There is no single tax law system governing the various taxes. Each tax has resulted from separate tax legislation.

TABLE 3

Principal taxes – summary (Currency : CNY)

| TAX | ASSET TYPE | APPLICABLE TO | RATES | COMMENTS |
|-----|-----------------------|----------------------|---------|---|
| EIT | Enterprise income tax | Regular rate – state | 15%-25% | General enterprise -25% Small-scale enterprises with minimal profits – 20% |
| | | | | Countries need to focus on the support of high-tech enterprises – 15% |
| | | | | Non-resident enterprises – 20% |

| | | | | |
|-----|-------------------------|---|---|--|
| VAT | Value-added Tax | Domestic sales Export sales | 13%-17% 0% | Normally -17% Small-scale-13% |
| CT | Consumption Tax | Import & manufacture of some consumer goods | 3-45% | Cosmetics 30% |
| CD | Custom Duty | Imported products for domestic use Imported products for export processing | Average 11.5% 0% | Electronics average 10.7%, textiles & garments average 17.6% No duty paid on imported materials used in exports |
| VAT | Vehicle Acquisition Tax | Levied at the time of acquisition | 10% | Payment within 60 days of purchase |
| IIT | Individual Income Tax | Individual income Individually-owned business | 3%-45% (Seven progressive rates) 5%-35% (Five progressive rates) | Taxed on wage and salary income and individual industrial and commercial households, operating income and other 11 projects Partnership enterprise and individual-owned enterprises |
| | | Others | 20% | |
| ST | Stamp Tax | Documents of a contractual nature executed or used in China, protected by Chinese laws | 0.05%-1% Processing contract- 0.5% Lease Contract- 1% | Purchase and sales contract- 0.3% Loan Contract- 0.05% |
| LAT | Land Appreciation Tax | Income derived from appreciation of real estate interests: building or land | 30%-60% (Four progressive rates) | Imposed on seller; similar to a capital gains tax on the difference between sales price and tax basis |
| DT | Deed Tax | Gross sale price (consideration) received from transfer of real estate interest, such as building or land use | 3%-5% | Buyer (transferee) is liable to the tax |

| rights | | | | |
|--------|--|--|---|---|
| URET | Urban Real Estate tax | An 'Ad Volumes' (based on value) annual tax on the ownership of real estate (building) | 1.2% 12% | According to the value of the remaining property According to the rental property income (Rental income of individual market prices of rental housing residents- 4%) |
| RT | Resource Tax | Exploitation or extraction of natural resources within China | 5%-10% CNY 0.3–60 per tonne | Crude oil, natural gas products Other tax items |
| VVUT | Vehicles and Vessels Use Tax or vessel | Ownership of a vehicle | CNY 36-5400 per vehicle CNY 3-60 per tonne CNY 600-2000 per meter | Vehicle Weight of the vehicle Length of vessel per meter |
| FOT | Farmland Occupation tax | Occupation of cultivated land for house building or non-agricultural construction | CNY 5-50 per square meter | |
| CMCT | City Maintenance and Construction Tax | In order to strengthen the maintenance and construction of the city | 7% 5% 1% | City County or town Other area does not belong to city, county and town |
| UTLUT | Urban and Township Land Use Tax | Urban land tax is a levy of range land is taxed | CNY 0.6-30 per square meter | |
| TT | Tobacco Tax | Tobacco purchase in China | 20% | |
| TT | Tonnage Tax | Levied by the customs | CNY 1.5-31.8 per tonne | |

ENTERPRISE INCOME TAX

RESIDENT ENTERPRISES (RE)

Resident enterprises are those set up in China in accordance with the law or those set up in accordance with the law of a foreign country (region) whose actual administration institution is in China.

NON-RESIDENT ENTERPRISES (NE)

Non-resident enterprises are those set up in accordance with the law of a foreign country (region) whose actual administration institution is outside China, although they have set up institutions or establishments in China or they have income originating from China without setting up institutions or establishments in China.

TABLE 4
Enterprise/corporate income tax rates summary

| TAXABLE INCOME | TAX RATE |
|---|----------|
| General enterprise | 25% |
| Countries need to focus on the support of high-tech enterprises | 15% |
| Small and micro enterprises | 20% |
| Non-resident enterprises | 20% |

INDIVIDUAL INCOME TAX (IIT)

The IIT is imposed on individuals who meet certain residency or domicile requirements.

Any individual, regardless of citizenship, may be subject to the IIT if he/she is present in China for a period, or otherwise has a People's Republic of China-sourced income.

People domiciled in China and people resident in China for at least one year are generally subject to IIT on income derived from sources both within and outside China (although exceptions apply in some cases). Other individuals are subject to tax on income derived from sources within China only.

The IIT is like the tax system in many developed countries, for example in the USA, where an individual may become subject to the host country's taxation on worldwide income because the person has stayed there for a certain period of time.

Monthly taxable income is the taxpayer's monthly gross income less a fixed deduction of CNY 3,500 (since 1 September 2011) and less an additional deduction of CNY 1,300 for non-resident taxpayers.

Individual Income Tax = Taxable Income * Tax Rate - Quick Deduction

Taxable Income = Wages and Salaries - Individuals Pay a Portion of Social Security – CNY 3,500

TABLE 5*Individual income tax bands and rates (Currency : CNY)*

| TAXABLE INCOME | TAX BAND | RATE | QUICK DEDUCTION |
|-------------------------------------|-----------------------|------|-----------------|
| Wages, salaries and year-end awards | Up to CNY 1,500 | 3% | 0 |
| | CNY 1,500–4,500 | 10% | 105 |
| | CNY 4,500–9,000 | 20% | 555 |
| | CNY 9,000–35,000 | 25% | 1,005 |
| | CNY 35,000–55,000 | 30% | 2,755 |
| | CNY 55,000–80,000 | 35% | 5,505 |
| | CNY 80,000 and above | 45% | 13,505 |
| Production and business income | Up to CNY 15,000 | 5% | 0 |
| | CNY 15,000–30,000 | 10% | 750 |
| | CNY 30,000–60,000 | 20% | 3,750 |
| Contracting and leasing income | CNY 60,000–100,000 | 30% | 9,750 |
| | CNY 100,000 and above | 35% | 14,750 |
| | | | |
| Labour income with tax | Up to CNY 20,000 | 20% | 0 |
| | CNY 20,000–50,000 | 30% | 2,000 |
| | CNY 50,000 and above | 40% | 7,000 |
| Labour income without tax | Up to CNY 16,000 | 20% | 0 |
| | CNY 16,000–37,000 | 30% | 2,000 |
| | CNY 37,000 and above | 40% | 7,000 |

VALUE ADDED TAX (VAT)

VAT is imposed on all types of taxpayer (i.e. individuals, enterprises, etc.) on the sale price of goods or services.

VAT applies to the sale and importation of goods in China, and also applies to processing and repair or replacement services carried out in China.

Sellers of taxable goods and services are required to collect VAT from purchasers at rates of 17% for most goods, 13% for certain staples, books and publications, and 17% for processing and repair or replacement services.

Key concepts used are the ‘output VAT’ and the ‘input VAT’. In general, a seller may apply the VAT paid on ‘inputs’ (i.e. the purchases of goods or labour services necessary for the seller to generate the sales or ‘output’), against the VAT payable (‘output VAT’). In theory, during the whole process after a ‘product’ or ‘service’ is first created until when it reaches the ultimate user or consumer, each seller will pay VAT on the portion or the value that the particular seller ‘added’ to the product or service.

VAT payable on imports is calculated as follows:

- Tax payable = VAT rate * (dutiable value of goods + applicable customs duty + applicable consumption tax)

Goods exempted from VAT include:

- Agricultural produce sold by original producers
- Contraceptives
- Second-hand articles
- Equipment used directly by scientific research organisations
- Goods and equipment donated by foreign governments and international organisations
- Some goods for disabilities which are imported directly by organisations of persons with disabilities
- Other items as may be specified by the State Council.

Sellers must remit VAT to the tax authorities according to the following formula:

- VAT payable for current period = (VAT paid on sales during the period – VAT paid on purchases of domestic and imported goods during the period).

CUSTOMS DUTY (CD)

CD can be imposed on both imports and exports, although most items can be exported from China duty-free.

For export items that are not exempt from export duty, the CD is based on the free on board (FOB) value, less the export duty.

For import items, the CD is based on the cost, insurance and freight (CIF) value. In general, there is a two-tier tariff system for CD on imports – most favoured nation (MFN) rates and ordinary rates.

TAX PLANNING IN CHINA

As business and investment activities increase in size and scope, tax planning in China has become more important, and at the same time, more complex.

It is necessary for any business or investor at each stage of the business or investment cycle to correctly gauge and minimise tax exposure. This is true from the perspective of both domestic and foreign enterprises.

The tax planning concepts relevant to the Chinese tax system are similar to those in many sophisticated tax systems: minimisation of the tax base, maximisation of available tax deductions, lowering of effective tax rates (such as having a particular income item taxed at a lower rate versus a higher rate), utilisation of special tax incentives available, avoidance of double taxation, utilisation of net operating losses, utilisation of tax credits, deferral of the taxable event (because of the interest value of money) and tax minimisation as a multi-tax year process with the goal of overall tax reduction.

In China, the tax function of an enterprise or investor should not limit themselves to 'planning' to minimise the tax burden. It is almost as important to have a strong defensive tax apparatus in place so that any tax position taken can be reasonably supported and defended in the case of an audit by the tax authorities. To do this effectively, there has to be a correct understanding of the legal basis of Chinese tax laws and how they are interpreted by the tax authorities, as applied to a taxpayer entity's specific factual situation.

For the foreign enterprise or investor, 'home country' tax issues are another set of parameters which must be considered within the context of their analysis of Chinese tax issues.

7 – ACCOUNTING & REPORTING

Since the beginning of the 1990s, China has significantly reformed its accounting system.

The Ministry of Finance (MOF) has the responsibility for promulgating accounting rules in China.

For listed companies, the China Securities Regulatory Commission also provides rules for disclosures. The Chinese Institute of Certified Public Accountants (CICPA) also issues guidance bulletins occasionally.

ACCOUNTING LAW

The Accounting law was promulgated by The National People's Congress (Standing Committee) on 31 October 1999.

This law sets out the primary legal responsibilities of business enterprises and other organisations/ entities (including government agencies, departments and not-for-profit organisations) in terms of accounting functions.

The accounting law does not provide the accounting principles, commonly known as the generally accepted accounting principles (GAAP).

Significant sanctions (including disciplinary action, monetary penalties and criminal prosecution) can result if an enterprise fails to comply with this law.

FINANCIAL ACCOUNTING & REPORTING RULES FOR ENTERPRISES

The Financial Accounting and Reporting Rules for Enterprises were issued by the State Council on 21 June 2000.

These rules provide the reporting and disclosure responsibilities of enterprises (i.e. the periodic accounting and financial reports, statements and disclosures which must be compiled and submitted). They also set out certain internal 'due diligence' procedures which enterprises must adopt to ascertain the accuracy and completeness of internal accounting and financial accounts, ledgers and reports (including 'internal control' procedures and guidelines).

Chinese accounting standards basically follow the international accounting standards. Those standards are applied to most of the enterprises in China, including FIEs. Financial institutions and small business entities have different sets of standards.

As a practical matter, in China today, GAAP consists of the following:

- Accounting System for Business Enterprise (ASBE) – this is a compilation of accounting principles, including some previously issued Chinese Accounting Standards (CAS) to be used as GAAP for a commercial business enterprise. As of 1 January 2007, all enterprises must use ASBE in preparing financial statements. If the entity/enterprise is engaged in a specialised business or industry sector, this may be covered by another comprehensive set of accounting rules e.g. banks/ financial institutions, insurance companies, brokerage companies, finance companies and leasing companies

- Chinese Accounting Standards (CAS) – these are accounting standards issued for specific areas or issues. An example is the CAS issued on accounting for ‘intangible costs’.

TABLE 6*Chinese accounting laws, regulations and standards*

| ACCOUNTING LAWS AND REGULATIONS | APPLICABILITY | EFFECTIVE DATE |
|---|--------------------|------------------|
| Accounting system of PRC for Chinese-foreign equity joint ventures | Joint ventures | 4 March 1985 |
| The Accounting Law of PRC (revision in 1993, 1999, 2000) | All enterprises | 1 May 1985 |
| The accounting regulations of PRC for enterprises with foreign investment | FIE | 1 July 1992 |
| General rules on enterprise finance | All | 1 July 1993 |
| Rules on enterprise accounting | All | 1 July 1993 |
| Revised Accounting Law | All | 29 December 1993 |
| Disclosure of related party relationships and transactions | Listed enterprises | 1 January 1997 |
| Events occurring after the balance sheet date | Listed enterprises | 1 January 1998 |
| Revenue | Listed enterprises | 1 January 1999 |
| Construction contracts | Listed enterprise | 1 January 1999 |
| Accounting law | All | 1 July 2000 |
| Accounting standard for business enterprises – basic standard | All | 1 January 2007 |
| Inventories | All | 1 January 2007 |
| Long-term equity investments | All | 1 January 2007 |
| Investment properties | All | 1 January 2007 |
| Fixed assets | All | 1 January 2007 |
| Biological assets | All | 1 January 2007 |
| Intangible assets | All | 1 January 2007 |
| Exchange of non-monetary assets | All | 1 January 2007 |
| Impairment of assets | All | 1 January 2007 |
| Employee compensation | All | 1 January 2007 |
| Enterprise annuity fund | All | 1 January 2007 |
| Share-based payment | All | 1 January 2007 |
| Debt restructurings | All | 1 January 2007 |
| Contingencies | All | 1 January 2007 |
| Revenue | All | 1 January 2007 |
| Construction contracts | All | 1 January 2007 |
| Government grants | All | 1 January 2007 |
| Borrowing costs | All | 1 January 2007 |
| Income taxes | All | 1 January 2007 |
| Foreign currency translation | All | 1 January 2007 |
| Business combinations | All | 1 January 2007 |
| Leases | All | 1 January 2007 |

| | | |
|--|--|----------------|
| Recognition and measurement of financial instruments | All | 1 January 2007 |
| Transfer of financial assets | All | 1 January 2007 |
| Hedging | All | 1 January 2007 |
| Direct insurance contracts | All | 1 January 2007 |
| Re-insurance contracts | All | 1 January 2007 |
| Extraction of petroleum and natural gas | All | 1 January 2007 |
| Changes in accounting policies and estimates, and correction of errors | All | 1 January 2007 |
| Events occurring after the balance sheet date | All | 1 January 2007 |
| Presentation of financial statements | All | 1 January 2007 |
| Cash flow statements | All | 1 January 2007 |
| Interim financial reporting | All | 1 January 2007 |
| Consolidated financial statements | All | 1 January 2007 |
| Earnings per share | All | 1 January 2007 |
| Segment reporting | All | 1 January 2007 |
| Related party disclosure | All | 1 January 2007 |
| Presentation of financial instruments | All | 1 January 2007 |
| First-time adoption of accounting standards for business enterprises | All | 1 January 2007 |
| Financial instruments | All | 1 January 2014 |
| Revision for Government grants | All | 1 January 2017 |
| Non - current assets, disposal groups and termination of operation | All | 28 May 2017 |
| Revision of Revenue recognition | Listed company both at domestic stock exchanges and overseas stock exchanges | 1 January 2018 |
| | Listed company at domestic stock exchanges | 1 January 2020 |
| | All | 1 January 2021 |

Early in 2002, the MOF issued a new separate, though similar, accounting system for financial institutions. Financial institutions include foreign investment banks, insurance companies, brokerages, leasing companies and finance companies.

Principles of growing concern, matching, consistency, accounting entities, measurement, cost essence, neutrality and reliable documentation, prudence and substance over form are accepted as the basic principles.

Enterprises are required to maintain a complete accounting system and prepare financial statements.

Enterprises must use double-entry bookkeeping and record transactions using the accrual method. Three kinds of primary accounting books must be set up:

- Journals
- General ledger and subsidiary ledgers
- Supporting documents.

Computerised accounting records are also allowed. All supporting documents, accounting books and financial statements must be prepared in Chinese. However, foreign languages can also be adopted along with Chinese. Generally, CNY is adopted as the base bookkeeping currency. If a foreign currency is used, financial statements must be converted into CNY at the year-end.

The annual financial report includes a balance sheet, profit and loss account, cash flow statement, statement of profit appropriation, notes to the financial statements, and supplementary statements and management's opinion.

In China, the accounting year is the calendar year, 1 January to 31 December. In theory, if enterprises experience difficulties in computing their taxable income according to the calendar year, another fiscal year is allowed upon approval by the tax authorities. In practice, the approval to change from the calendar year to another type of fiscal year is difficult to obtain.

An FIE is required to entrust a Chinese CPA firm to audit its annual financial statements, accounting records and to issue an auditor's report. All vouchers, accounting records and financial statements must be provided to the auditors. Auditing is carried out in accordance with company law, accounting regulations and tax laws. The statutory annual auditing of financial statements is mainly for the purpose of tax authorities. The annual financial statements and auditor's report must be filed within four months of the end of the year.

8 – UHY REPRESENTATION IN CHINA

CONTACT DETAILS

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Year established: 1985

PCAOB registered?: Yes

Number of partners: 26

Total staff: 648

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Anhui Office: 5F, Block A, Tonghe Tower, No.468 Huangshan Road, Hefei, Anhui
Beijing Office: First Floor of Metropolitan University, No.55 Shatan Back Street, Dongcheng District, Beijing
Guangdong Office: Room 905 Daxin Plaza, No.538 North Dezheng Road, Yuexiu District, Guangzhou, Guangdong.
Hangzhou Office: Room 1701, Yuanmao Plaza, No.1 South Wener Road, Hangzhou, Zhejiang

BRIEF DESCRIPTION OF FIRM

Our firm is currently ranked second in Shanghai (excepting the big four), and 24th in the comprehensive ranking of nearly five thousand accounting firms in China.

We have nearly 1000 staff, among which, around 250 are Chinese Certified Public Accountants and many of them have international qualifications, such as ACCA, ACA or CFA, etc. Additionally, we also have a group of certified public valuers, registered real estate appraisers, registered tax agents and other qualified professionals, who have both a strong theoretical foundation and extensive experience.

SERVICE AREAS

- Assurance
- Audit Service
- Capital Market Service
- Internal Control Review
- Capital Verification
- Business Risk Management Service
- Corporate Governance
- Internal Audit
- Internal Control & Sarbanes-Oxley Compliance
- Technology risk assurance and advisory
- International Business
- Report on IFRS and US GAAP
- Overseas IPO

Corporate Finance
 -Acquisitions
 -Transactions
 -Fund Raising
 Forensic & Investigation Services
 -Expert witness & forensic Accounting
 -Forensic IT
 Restructure and Liquidation Services
 -Corporate
 -Personal
 Taxation Services
 -China Tax
 -International Tax
 Accounting Services
 -Bookkeeping
 -Payroll Service
 -Individual Tax Filing
 -Human Resource Policy Design
 Advisory Services
 -Financial Management Advisory
 -Business Evaluation Advisory

PRINCIPAL OPERATING SECTORS

Accounting
 Car manufacturing and components
 Chemicals
 Metals & precious stones
 Packaging & Containers
 Plastics & rubber
 Real Estate and Rental and Leasing
 Retail
 Trading Companies

LANGUAGES

Mandarin Chinese, English.

CURRENT PRINCIPAL CLIENTS

Listed Companies:
 Shanghai Haixin Group Co.,Ltd
 Orient International Enterprise,.Ltd
 Shanghai Jinqiao Export Processing Zone Development Co., Ltd
 Shanghai Tongji Science & Technology Industrial Co., Ltd
 JiLin Sino-Microelectronics Co., Ltd
 Shanghai Wanye Enterprises Co.,Ltd
 Shanghai New World Co., Ltd
 Shanghai Chlor-alkali Chemical Co., Ltd
 Shang Hai Ya Tong Co., Ltd
 China Shipping Development Co.,Ltd
 Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd
 Shanghai Huili Building Materials Co., Ltd
 Danhua Chemical Technology Co., Ltd
 China First Pencil Co., Ltd
 Shanghai Jiabao Industry & Commerce(Group) Co., Ltd
 Jinshan Development & Construction Co., Ltd

Shanghai JinLing Co., Ltd
 Yantai Xinchao Industry Co., Ltd
 China Textile Machinery Co., Ltd
 China Shipping Container Lines Co., Ltd
 Shanghai Hyron Software Co., Ltd
 SGSB GROUP CO., LTD
 Shanghai Xujiahui Commercial Co., Ltd.
 Jiangsu Yitong High-tech Co., Ltd.
 Jiangsu Fengdong Thermal Technology Co., Ltd.
 Shanghai Laofengxiang Co., Ltd
 Shanghai Hi-tech Control System Co., Ltd
 AVCON Information Technology Co., Ltd.
 Faw Car Co., Ltd
 China Eastern Air Holding Company
 Ningbo Sunlight Electrical Appliance Co., Ltd
 Yantai Hualian Development Group Co., LTD
 Shanghai KEN Tools Co., Ltd
 Shanghai ANOKY Textile Chem Co., Ltd.
State-owned Companies:
 Shanghai Automotive Group Co., Ltd.
 Shanghai Guo Sheng (Group) Co., Ltd.
 Shanghai Jinqiao (Group) Co., Ltd.
 Shanghai Zhangjiang (Group) Co., Ltd.
 Shanghai Pudong Development (Group) Co., Ltd.
 Shanghai Lujiazui (Group) Co., Ltd.
 China Shipping Group Company
 Baosteel Group China FAW Group Corporation
 Orient International (Holdings) Co., Ltd.
 Shanghai Shenneng Group Co., Ltd.

 China Eastern Air Holding Company
Banks and Non-bank Financial Institutions Customers:
 Woori Bank (China) Co., Ltd.
 Hai Tong Securities Co., Ltd.
 Societe Generale, all the branches in China
 AJ Securities Co., Ltd.
 Bank of America, all the branches in China
 Warburg Securities Brokers Co., Ltd.
 Union Bank (China) Co., Ltd.
 Zhejiang Financial Leasing AG
 National Bank of Egypt Shanghai Branch
 DBS Bank (China) Co., Ltd.
 Hana Bank (China) Co., Ltd.
 BOCOM Financial Leasing Co., Ltd.
 Merchants Bank Financial Leasing Co., Ltd.
 Letter Fund Management Co., Ltd. Thailand
 Japan's Sakura Bank Shanghai Branch
 Prudential Fund Management Co., Ltd.
 Nanyang Commercial Bank (China) Co., Ltd.
 Galaxy Fund Management Co., Ltd.
 Rabobank, Ltd. Shanghai Branch Noble Fund Managers Limited
 Orient Securities Company Limited
 Chang Xin Asset Management Corporation Limited

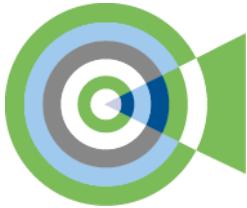
BRIEF HISTORY OF FIRM

Shanghai Zhonghua Certified Public Accountants was founded in 1985. Today, Shanghai ZhongHua is one of the largest accounting firms in Shanghai and China. Being approved by the Ministry of Finance, National Administration Bureau of State Owned Property, and China Securities Regulatory Commission, the firm is qualified for shares related businesses.

The firm joined UHY in 2011.

APPENDIX I – USEFUL WEBSITES

| | |
|--|--|
| China's Investment Projects and Conditions | www.fdi.gov.cn |
| The PRC Ministry of Commerce | www.moc.gov.cn |
| The PRC Ministry of Finance | www.mof.gov.cn |
| The PRC State Administration of Taxation | www.chinatax.gov.cn |
| Shanghai Foreign Investment Service Centre | www.sfisc.com |
| Foreign Investment Laws and Regulations | www.fdi.gov.cn |



LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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