

CHINA

How AGN can help you

This Capability Statement comprises of the following information :

- China - the challenges for successful business
- China - Business structures and Corporate information
- China - Accounting implications
- China - Demographic information

CHINA - the Challenges

China is becoming an economic superpower and the challenges for international companies there to be successful are many including :

- a lack of transparency in the market place
- relationship based dealings which lead to slackness about the rule of law
- its enormous size which creates a multitude of markets
- differing perspectives and expectations of business partners, tough negotiating environment
- bureaucratic hurdles, changing regulations and the need to build and maintain official contacts
- understanding the market, winning customers

Investors will need to draw on a range of qualities, such as :

- insight: looking at China from a Chinese perspective and communicating meaningfully rather than superficially with their partners
- be adaptable and persistent: changing direction when faced with obstacles and persevering when others expect them to tire
- be realistic by “seeking truth from facts” and developing a workable strategy

China - Business Structures and Corporate Information

(as provided by AGN Chu and Chu)

Form of Business Establishment in China

Depending on the factors such as nature of business or objectives of the foreign investors, business set up in China can be in one or other of the following forms :

- *Representative Office*

It cannot operate business activities such as manufacturing and production; neither can it engage in sale and marketing activities. Their scope of work is limited to auxiliary works such as liaison and market research

- *Joint Venture*

The joint venture can be either :

“Chinese-Foreign Equity Joint Venture” where a Chinese Limited Liability Company is formed and the participants share profits, risk and losses in proportion to their respective contributions

or

“Chinese-Foreign Co-operative Joint Venture” where it may be in a form of legal person or otherwise as an unincorporated person without the status of a separate legal entity

- *Wholly Foreign Owned Enterprise*

This is usually a Chinese incorporated limited liability company owned by one or more foreign investors

- *Branch*

Foreign enterprises may also conduct businesses in China with establishments in China in the form of a branch or a place of business

General Requirement for Business Registration in China

It is the local regional government which prescribe their own sets of rules and procedures for business registration. However, below is a list of the general registration requirements common to all business set ups :

- Company Name Registration
- Certificate of Permit Application
- Unified Code Registration
- Business Registration
- Foreign Currency Exchange Registration
- State Tax Registration
- Local Tax Registration
- Customs Registration
- Accounting Registration
- Statistics Registration
- Company Chops Registration
- Basic Bank Account Registration

Taxation in China

The common types of taxes in the PRC that are of interest to foreign investors are :

- *Foreign Enterprises Income Tax*

Both income derived from sources both inside and outside China are liable to Foreign Enterprises Income Tax. Apart from income derived from production and business operation, passive types of income such as dividends, interest, rental, royalty etc are also liable to this tax

- *Value-Added Tax*

A form of turnover tax levied on the enterprises or individuals engaged in sale of goods, provision of processing, repair and replacement services

- *Business Tax*

Another type of turnover based tax levied on enterprises and individuals engaged in services provision, assignment of intangible assets or sales of immovable properties in China

- *Consumption Tax*

Another type of turnover based tax levied on enterprises and individuals engaged in production and processing of non-essential or luxury goods in China

- *Individual Income Tax*

Both Chinese citizens and foreigners are liable to this tax. It is levied on wages and salaries, business and other income of the individuals domiciled or resident in China

Apart from the above major taxes, the other taxes commonly met by foreign investors are :

- *Deed Tax*

A tax charged at between 3%-5% on the total value of land use right or building ownership right transferred

- *Land Value-Added Tax*

A tax on gain arising from transfer of land and buildings. Tax rates ranging from 30% to 60%

- *Stamp Tax*

A tax on certain documents executed or used in the PRC. The tax rate varies depending on the nature of the taxable documents, eg. 0.03% of the purchase / sales price is charged for Purchase and Sales Contracts and 0.05% of the Processing income is charged for the Processing Contracting Contract

Outline of Labour Law in China

- the China labour laws are very comprehensive and protective
- it is mandatory for all enterprises and employees to comply with the rules and regulations on Labour and Social Security requirements
- the rules of "Social Insurance and Welfare" stipulate that contributions should be made to old-age insurance, medical care insurance, unemployment insurance etc by the enterprises and / or the employees
- moreover there is a complete labour administrative system to maintain the enterprises employment and staffing policy
- it is important to note that currently, the PRC government places emphasis on the aspect of compliance in the provision of an "occupational safety and health" environment to the labour
- in case there are any labour disputes between employers and employees, assistance can be sought from the Labour Department

China - Accounting Implications (as provided by Wong Bros.)

Accounting laws and regulations are issued and administered by the Ministry of Finance ("MOF"). The Chinese Institute of Certified Public Accountants ("CICPA") is responsible for regulating and monitoring the reform and development of the accounting profession in China and also serves as a bridge between the Government and practicing accountants.

China has adopted a unique accounting system geared to the Government's objectives for uniformity and comparison. The major features of the accounting regulations promulgated by MOF, which may be different from international requirements, are :

- historical cost is the prescribed basis for preparation of accounts
- assets are required to be stated at their historical costs on acquisition. Any adjustments to the books value are prohibited except as specifically allowed by individual state's provisions
- the fiscal year of all the enterprises runs from 1 January to 31 December; accounting records and books must be written in simplified Chinese and kept in RMB, the official currency of China
- there are statutory requirements to make appropriations for welfare fund and surplus reserve from profits after tax

Auditing is not a legal requirement for all enterprises in China, but it is required under Government's regulations for specific types of companies and industries. Auditors in China are registered members of CICPA and the main emphasis of an audit, except those for listed companies and regulated industries, is to ascertain the tax liabilities of the enterprises in accordance with the tax rules and regulations. Accounting professionals wishing to practise in China must be licensed as CPAs upon passing the unified national Chinese CPAs examinations. The CICPA adopts categorization system in its administration of CPAs. For example, CPA firms performing attestation work for listed companies must possess special licenses, and the audit of financial institutions requires qualification screening.

Normal accounting work of local accounting firms in China includes :

- audit and asset evaluation of Stated-owned enterprises, foreign joint ventures and enterprises, and local enterprises limited by liabilities or by shares
- verification of capital injection by investors of local and foreign enterprises
- management consulting and tax compliance work

The work standards of most local firms in China are still behind international standards, especially in the attestation and assurance work. The barrier for these firms to serve international clients is the lack of ability to communicate with the clients and to prepare reports for them in English. Besides, these firms do not have much exposure to international work, therefore, more often than not, foreign investors have to engage large accounting firms in Hong Kong with China experience to examine and convert the financial statements of their operations in China in accordance with the requirements of International Accounting Standards for the purpose of financial reporting in their own countries.

China - Demographic Information (as provided by AGN Chu and Chu)

The following table details some key economic indicators in respect of four of the major cities that have recently attracted foreign investment :

Key Economic Indicators		Beijing	Tianjin	Shanghai	Shenzhen
GDP	2001 total (billion, US\$)	281.76	182.67	495.08	195.42
	Increment Over 2000 (%)	11.00	12.00	10.20	13.20
GDP per capita	2001 total (billion, US\$)	25,300.00	19,986.00	37,304.58	43,344.00
	Increment over 2000 (%)	10.20	11.60	8.30	5.20
Hi-Tech Industry	2001 total (billion, RMB)	845.70	892.28	1,669.22	1,321.36
	Increment over 2000 (%)	13.70	19.30	30.30	24.10
Foreign Investments Utilised	2001 total (billion, US\$)	4.01	4.63	4.39	3.60
	Increment over 2000 (%)	33.20		39.00	21.40
FDI	2001 total (billion, US\$)	1.77	3.22	3.10	2.59
	Increment over 2000 (%)	(28.10)	25.80		32.10
Import / Export Value	2001 total (billion, US\$)	51.54	18.19	60.90	68.61
	Increment over 2000 (%)	3.90	6.00	11.30	7.30
	Total export (billion, US\$)	11.79	9.50	27.63	37.48
Price Index	Consumer Price Index (%)	103.10	101.20	102.50	(2.20)
	Retail Price Index (%)		98.60	96.40	
Population	2001 total (thousand)	13,833.00	10,040.60	13,271.40	4,687.60
	Unemployment rate (%)	1.18	3.60	4.30	2.47
	Average annual salary (RMB)	18,640.00		18,035.00	25,941.00
	Disposable income of dwellers (RMB)	11,578.00	8,958.70	12,883.00	

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