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# Doing Business in China

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## **Preface**

*This book was prepared by Ernst & Young, China. It was written to give the busy executive a quick overview of the investment climate, taxation, forms of business organization, and business and accounting practices in China. Making decisions about foreign operations is complex and requires an intimate knowledge of a country's commercial climate, with a realization that the climate can change overnight. Companies doing business in China, or planning to do so, are well advised to obtain current and detailed information from experienced professionals. This book reflects information current at 1 March 2003.*

*This book covers information regarding mainland China only, and does not specifically address the Hong Kong Special Administrative Region of China or the Macau Special Administrative Region of China.*



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# Introduction

## *Geography*

The People's Republic of China (PRC) is the third largest country in the world, with a land area of 9.6 million square kilometers (3.7 million square miles). It is situated at the eastern end of Asia, and its neighboring countries include Afghanistan, Bhutan, Burma, India, Kazakhstan, Kyrgyzstan, Laos, Mongolia, Nepal, North Korea, Pakistan, the Russian Federation, Tajikistan and Vietnam.

China is primarily a mountainous country. More than 60% of its land mass is composed of mountains and highlands. The land surface slopes downward from west to east, from the Himalayas in the southwest to the Pacific Coast in the east. Beijing, the capital, is situated in north-central China.

## *Population and Language*

### *Population*

China has the largest population of any country. It accounted for nearly one-quarter of the world's total population with more than 1.27 billion people in 2001. During the 1980s, the annual population growth rate fluctuated between 1.3% and 1.7%. However, the growth rate dropped to 0.95% by 1998. Under the government's birth control policy, the population is projected to reach 1.33 billion by the year 2005.

Ethnic Chinese (Han) comprise approximately 92% of the total population. The remainder is composed of 56 ethnic groups spread along the country's western borders. The population is distributed unevenly, with the majority of the population concentrated along the coastal plains and in the southeastern part of the country.

The majority of China's population, approximately 60%, still resides in small villages and rural areas. However, the process of urbanization (transformation from an agricultural to an industrial economy) is clearly evident. The trend towards urbanization started in 1979 and coincided with China's adoption of an open door policy. In comparison, the rural population accounted for approximately 89% of the total population in 1949.

The country's total workforce represents 56% of its total population. Fifty percent of the workforce is employed in the agricultural sector, 23% in the industrial sector and 27% in the services sector. Approximately 24% of the population is under 15 years of age, 69% is from 15 to 64 years of age and 7% is 65 years of age or older. The average life expectancy in China is 72 years of age.

*Language*

The official language in China is Putonghua, also referred to as Mandarin, which is a dialect spoken around the greater Beijing area. However, numerous other dialects are also spoken in different parts of China, the most common being Cantonese in southern China and Shanghainese in the greater Shanghai region. Although the written language is ideographic, many areas frequented by foreigners also utilize the Pinyin system of romanization.

*Time*

China's entire territory is situated in a single time zone, which is eight hours ahead of Greenwich Mean Time (GMT). Time differences between Beijing and other major world cities are shown in the following table.

<i>City</i>	<i>Hours Ahead of or Behind Beijing</i>
Buenos Aires	-11
Cairo	-6
Cape Town	-6
Frankfurt	-7
London	-8
Los Angeles	-16
Moscow	-6
New Delhi	-2
New York	-13
Paris	-7
Rome	-7
Sydney	+2
Tokyo	+1

### ***Public Holidays***

National public holidays are listed in the table below. Dates for the Chinese New Year are based on the lunar calendar and vary from year to year.

<i>Holiday</i>	<i>2003</i>
New Year's Day	1-2 January
Chinese New Year	1-3 February
International Women's Working Day*	8 March
International Labor Day	1-3 May
Youth Day	4 May
Children's Day	1 June
Anniversary of Founding of Communist Party	1 July
Anniversary of Founding of Chinese PLA	1 August
National Day	1-3 October

\* Holiday granted for women only.

### ***Useful Addresses and Telephone Numbers***

For a listing of useful addresses and telephone numbers in China, see Appendix 1, page 67.



# **A. Government Structure and Economic Climate**

## **A.1 Government Structure**

The PRC was founded on 1 October 1949 under the leadership of the Chinese Communist Party (CCP).

### ***Chinese Communist Party***

China is a socialist state. Its political system is principally a one-party system led by the CCP. Within the CCP, the National People's Congress (NPC) is the highest authority on party matters and is responsible for determining and adopting long-term plans and policies.

A central committee is elected at each congress to function as the party's executive body. A political bureau (Politburo) is composed of committee members and is headed by a party chairman. The Politburo includes a secretariat, who is responsible for day-to-day party affairs, and a standing committee, which is the executive body.

The CCP exists at all levels, and until recently, all significant government policies required its endorsement to be adopted. Although party membership generally remains an important criterion for holding a senior government position, efforts have been made in recent years to separate the CCP from the government by transferring power from leaders and party politics to institutions.

### ***National People's Congress***

The NPC, which is under the leadership of the CCP, is the highest body of state power in China. It is composed of deputies selected from the provinces, autonomous regions and municipalities.

The NPC has a wide range of powers and responsibilities, including the following:

- Amending the constitution and enacting legislation;
- Electing the premier and State Council members on the recommendation of the CCP standing committee; and
- Approving the national economic plan and state budget.

A standing committee of the NPC is elected at the first session of each congress and performs the work of the NPC when it is not in session. NPC members are elected for terms of five years and meet in session once each year.

### ***State Council***

The State Council is the highest organ of state administration and reports directly to the NPC. Its members are appointed by the NPC on the recommendation of the central committee of the CCP. It is responsible for the country's administrative affairs, including diplomatic relations with foreign countries.

A number of state commissions and ministries (for example, the Ministry of Foreign Affairs and State Planning Commission), administrative bodies, bureaus (for example, the State Statistical Bureau and State Administration for Industry and Commerce), and corporations (for example, the China International Trust and Investment Corporation) report directly to the State Council. However, recent reforms have increased the number of corporations that are independent from any government department.

### ***Administrative Subdivisions***

For administrative purposes, China is separated into 23 provinces, 5 autonomous regions and 4 directly administered municipalities. Government and the majority of governmental organizations exist at four administrative tiers: central, provincial, city and township.

In addition, China has two special administrative regions (SARs). Following an agreement with the United Kingdom, Hong Kong became the Hong Kong SAR of China on 1 July 1997. Following an agreement with Portugal, Macau became the Macau SAR of China on 20 December 1999. China does not impose the Chinese socialist economic system in these two SARs, and both Hong Kong and Macau exercise autonomy, except in defense and foreign affairs.

For a listing of administrative subdivisions in China, see Appendix 2, page 70.

### ***Constitution***

China has a written constitution. The current constitution, which is the fourth version since the founding of the PRC, was promulgated in December 1982.

## **A.2 Economy**

### ***Type of Economy***

#### ***Structure***

In late 1978, Deng Xiao-ping initiated an “open door policy” to modernize China by encouraging foreign investment and trade. The economic reforms that flowed from the open door policy have created an economic system often referred to as a “socialist economy with Chinese characteristics”. Unlike the rigid, centrally planned economies in most traditional socialist nations, China’s economy is a hybrid structure in which strategic commodities and industries are controlled by the state, while other industries, including the commercial and private sectors, are governed by a market-oriented system.

#### ***Decentralized Decision-Making***

Under China’s hybrid system, most decision-making authority has been delegated to the local level. The government’s role is limited to setting macroeconomic policies. The management of an enterprise is entrusted with the autonomy to set its own policies regarding the operation of the enterprise. Under the new system, state-owned enterprises will be responsible for their own financial affairs

and the government will no longer subsidize loss-making enterprises, except for those in key sectors such as post and telecommunications, petrochemicals and transportation.

#### *Private Enterprises*

Private enterprises, primarily in the industrial sector, have dramatically reemerged and now account for a significant portion of established enterprises in China.

#### *Floating Wage-and-Price System*

The government is gradually relaxing its wage-and-price control policy and now allows market forces to determine prices of certain nonessential items. The ultimate goal of this policy is to eliminate the system of state subsidies. Plans will eventually extend price reforms to the labor, property and financial markets.

#### *Labor Mobility*

Under the old so-called “iron rice bowl” system, an individual assigned to a work unit would normally remain with that unit for the rest of his or her working life. Today, some individuals are allowed to seek their own jobs to relieve an overburdened system of its responsibility and to help to find employment for all graduates.

#### **General Economic Trends**

China’s economy has grown considerably since 1978 as a result of decentralization and the elimination of price controls. The economy is now growing at a steady rate and experienced a gross domestic product (GDP) growth rate of 7.9% in 2000 and 7.3% in 2001.

As the economy posts strong growth, living standards and per capita income are increasing. During the early 1990s, average per capita income increased at annual rates between 10% and 30% annually. However, in recent years, the growth rate has slowed. Average per capita income increased by 7.27% for urban households and 1.95% for rural households in 2000.

For information regarding China’s leading economic indicators, see Appendix 3, page 71.

### **A.3 Leading Industries**

#### *Agriculture*

China replaced the original commune system in its agricultural sector with a household responsibility system, which links remuneration to output. Under the new system, agricultural output has more than doubled since 1978.

#### *Industrial Sector*

China is encouraging the development of new and advanced technologies, including information technology, microelectronics and biotechnology. China has established more than 110 high-technology industrial development zones to promote technological development.

## *Services*

Coinciding with the increases in per capita income and living standards, the services sector is becoming increasingly important to the economy, particularly in large cities. Under the open door policy, China has gradually opened up more services industries to foreign investment, including the banking, insurance, trade and retail industries. With a population of more than 1.2 billion people, China provides a vast market for consumer goods and services. The services sector accounted for an estimated 33.2% of China's GDP in 2001.

## **A.4 Financial System**

### *Central Bank and Bank Regulators*

The creation of a modern banking system is a continuing objective of the Chinese leadership as it seeks to strengthen fiscal and macroeconomic control over the economy. Reforms have focused on modernizing the banking system to fit international standards, strengthening the role of the central bank and separating policy-oriented lending from commercial lending.

### *People's Bank of China and China's Bank Regulatory Commission*

In March 2003, the National Committee of the Chinese People's Political Consultative Conference divided the People's Bank of China (PBOC) into two departments, the PBOC and China's Bank Regulatory Commission. The PBOC functions as the government's central bank and is controlled by the State Council. The PBOC is entrusted with the independence and autonomy to make decisions regarding monetary policies but must report its decisions to the State Council.

The PBOC has the following responsibilities:

- Formulating and implementing monetary policies, including regulating interest rates;
- Issuing currency and regulating its circulation;
- Coordinating and implementing credit plans;
- Improving the macro adjustment policy of the financial markets; and
- Performing interbank borrowings.

China's Bank Regulatory Commission has the following responsibilities:

- Formulating and implementing the supervision and administration of regulations related to the banking industry;
- Overseeing the establishment and operations of financial institutions;
- Regulating the establishment and operations of the financial markets; and
- Overseeing the activities of financial institutions in the PRC and imposing penalties for prohibited activities.

### *Ministry of Finance*

The Ministry of Finance (MOF), an independent body under the supervision of the State Council, formulates long-term economic strategies and sets priorities for the allocation of funds.

The MOF has the following primary responsibilities:

- Enforcing economic, tax and other finance-related policies;
- Preparing the annual state budget and fiscal report;
- Developing the financial management and tax system;
- Managing state revenue and expenditure; and
- Supervising the financial activities of all subordinate organizations.

### ***Financial System***

#### *Specialized Commercial Banks*

China's specialized banks have traditionally engaged in both policy-oriented lending (low-interest long-term loans to enterprises in strategic industries) and commercial lending. In early 1994, the Chinese government announced significant reforms to the banking system. Under the reforms, the four major specialized banks: the Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China and Construction Bank of China were transformed into purely commercial entities. The banks are now responsible for their own profits and losses and have the ability to provide a full range of commercial banking services. Previously, the specialized banks carried nonperforming loans for state enterprises. The reforms transferred the responsibility of these policy loans to newly created policy banks.

#### *Policy Banks*

In 1994, three policy banks were established: the State Development Bank, the Import and Export Bank and the Agricultural Development Bank. These policy banks were established to assume the policy-oriented lending formerly handled by specialized banks.

#### *Foreign-Funded Banks and Branches*

Currently, foreign-funded banks are limited regarding to whom they may lend, where they may lend, and what currency they may lend. Such banks are not allowed to negotiate with domestic Chinese businesses or lend money to Chinese individuals. However, since 2002, China has designated certain cities where foreign-funded banks are allowed to handle renminbi business. Within five years of China's accession into the World Trade Organization (WTO), regional limitations will no longer be imposed on foreign-funded banks handling renminbi business in China and foreign-funded banks will be allowed to apply their analytical models for credit risk.

In anticipation of China's accession to the WTO, at the end of 2001 the government implemented the Regulations on the Administration of Foreign-Invested Financial Institutions, which allow foreign financial institutions to establish branches in the PRC.

Branches may now perform the following services in the PRC:

- Accepting deposits from the public;
- Loans of all types;
- Accepting and discounting commercial instruments;
- Trading securities, except government bonds, financial bonds and stocks in foreign currencies;
- Issuing letters of credit and guarantees;
- Foreign and domestic clearances;
- Foreign exchange trading;
- Bankcard services;
- Safe services;
- Credit investigation and consulting services; and
- Other services approved by the PBOC.

Branches of foreign-funded financial institutions are subject to strict local financial inspections. Two of the most significant requirements that must be met include the following:

- Foreign financial institutions must have had representative offices in the territory of China for a period of at least two years or more; and
- They must have total assets of not less than US\$20 billion at the end of the year prior to the application and a capital sufficiency rate of not less than 8%.

Prior to China's accession to the WTO, China prohibited foreign banks from dealing in renminbi business with Chinese clients. In addition, rigid geographical restrictions were imposed on the establishment of foreign banks. Foreign banks were allowed to set up representative offices but not branches. Shortly after the enactment of the new regulations, most foreign financial institutions that had previously established representative offices quickly converted their entity status to branch offices. As a result, such branches may engage in banking services that representative offices were otherwise not allowed to engage in.

#### *Banks in Special Economic Zones*

Foreign-funded banks are permitted to set up business operations in special economic zones (SEZs) to expand international economic and financial cooperation and to attract foreign capital and technology. Foreign-funded banks are subject to the laws and regulations of the PRC. The law protects a bank's legitimate business operations and legal rights. The PBOC approves the establishment of foreign-funded banks based on the economic growth needs of the SEZs.

#### *Insurance*

Insurance companies in the PRC are governed by the Insurance Law, which was promulgated in 1995. New regulations for the administration of insurance companies came into force on 1 February 2002. The regulations allow insurance companies to establish Sino-foreign joint ventures and wholly foreign-owned

enterprises or branches. However, the regulations must be read in conjunction with the Protocol on the Accession of the PRC, which provides for a gradual opening of the Chinese insurance industry. The protocol also provides for a gradual relaxation of geographic coverage, for example, a foreign life insurer can operate in Dalian, Foshan, Guangzhou, Shanghai and Shenzhen, with services expanding to 15 cities within 2 years. All geographic restrictions will be removed within three years.

The China Insurance Regulatory Commission must approve the establishment of an insurance company. Foreign invested insurance companies may operate either a property or personal insurance business, but not both. The minimum registered capital requirement is RMB 200 million. A foreign investor must have at least a 30-year operating history and must have maintained a representative office in China for at least 2 years. It must also have an asset base of at least US\$5 billion at the end of the year preceding the application.

#### *Fund Management*

The China Securities Regulatory Commission (CSRC) regulates the Fund Management Industry. The Rules for the Establishment of Fund Management Companies with Foreign Participation (FMC Regulations) became effective on 1 July 2002 and provide the requirements for foreign investors to establish Foreign Fund Management (FMC) companies in the PRC. Under the new rules, foreign investors whose equity interests were limited to a much lower percentage before China's accession to the WTO are now allowed to raise their holdings up to 33%, with a further increase to 49% by 2004. Foreign investors would not only be allowed to become majority shareholders in a foreign invested FMC, but also the FMC may engage in the same type of business and activities that a wholly domestic FMC may undertake, for example, the establishment, sponsorship and management of securities investments funds.

Under the rules, a foreign financial institution must meet the following four requirements to invest in a foreign-invested FMC:

- The foreign financial institution must be a financial institution that is established in accordance with the laws of the country where it is located and whose existence is continuing lawfully. It must not have been subject to significant penalties from the securities regulatory authorities or the judicial authorities in the preceding three years.
- The country where it is located must have sound securities laws and regulatory systems. The country's securities regulatory authorities and the CSRC must have concluded a memorandum of understanding on securities regulatory cooperation and maintain an effective relationship of regulatory cooperation.
- It must be a legal person and have paid up capital of not less than the equivalent of RMB 300 million in a freely convertible currency.
- It must meet other prudential requirements stipulated by the CSRC.

### ***Stock Exchange and Security Regulating Authority***

China currently has two stock exchanges, the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE). The exchanges are regulated by the China Securities Regulatory Commission (CSRC), which establishes regulatory guidelines, formulates and enforces market rules, and authorizes initial public offers.

Over-the-counter trading is carried out in many cities including Beijing, Chongqing, Guangzhou, Shanghai, Shenyang and Wuhan. Although shares of unlisted companies continue to be traded on the over-the-counter markets, listed shares are now traded on only the two exchanges.

Two classes of shares exist in China: “A” shares, which may be purchased by Chinese nationals, and “B” shares, which may be purchased by both Chinese nationals and foreigners. Shares are divided into state-owned shares, enterprise shares and individual shares. Only individual shares may be traded freely. The trading of state-owned shares is prohibited, whereas the trading of enterprise shares is restricted.

Subject to the approval of the CSRC, state-owned enterprises may issue “H” shares on the Stock Exchange of Hong Kong. Companies issuing H shares must meet Hong Kong’s listing requirements and must comply with internationally accepted standards. In addition, several foreign investors’ investment vehicles are listed on exchanges in London, New York and Toronto.

### **A.5 Currency**

China’s official currency is the renminbi (RMB), which is issued by the PBOC. The RMB is denominated in units of fen, jiao and yuan (¥). Ten fen equal 1 jiao, and 10 jiao equal 1 yuan. In general, references to amounts of RMB indicate units of yuan, unless otherwise indicated.

In 1994, the government unified the dual exchange rate and the RMB now trades in a managed float. The daily exchange rate is announced by the PBOC based on the interbank rate of the preceding day. Designated banks quote their exchange rates based on the exchange rate and floating range announced by the PBOC.

Prior to 1996, the approval of the State Administration of Foreign Exchange Control (SAFE) was required for all foreign exchange transactions. In 1996, the foreign exchange system was reformed. Transactions categorized as current account items are freely convertible. Remittances of after-tax profits, dividends, income and payment of royalties no longer require the SAFE’s approval. Although capital account items remain subject to controls, the measures demonstrate progress towards full convertibility of the RMB. For details regarding foreign exchange controls, see Section B.2, page 14.

For a list of exchange rates of the RMB against selected major foreign currencies, see Appendix 4, page 72.

## **B. Investment Climate and Foreign Trade**

Following 20 years of negotiations, China officially joined the WTO on 11 December 2001. China's accession bears great significance for the country's economy and the future of global trade. Many industries that were previously restricted only to domestic enterprises are now open to foreign investors. These industries range from banking, telecommunications, distribution, construction, engineering, and insurance to professional services including legal, accounting, and architectural services. Furthermore, restrictions on domestic sales by foreign manufacturing companies will also be lifted.

Most of the prior requirements of foreign exchange balancing, local content and export performance will be eradicated in accordance with a WTO timetable. Perhaps the most significant change involves the form of corporate structure. Foreign non-life insurers will be allowed a 51% equity ownership without geographical restrictions two years after WTO accession, and any foreign-invested fund management company or telecommunications company may own up to 49% of the enterprise by 2004.

As a WTO member, China must comply with key mechanisms of the agreement including substantial tariff reductions and duty rates; phasing out quotas, import licenses, offsets, incentives in special economic zones (SEZs), (see Section B.1, below) and other nontariff barriers to trade; and liberalization of trade barriers as well as the systematic reform of corporate transparency, uniform application of laws and judicial reform. In certain cases, such as joint venture requirements, the opening will be restricted to allow Chinese firms to fully benefit from technology transfers and investments from abroad. Any preferential tax treatments that were applicable only to foreign investment enterprises (FIEs), along with government policies that protected certain domestic industries, are expected to be entirely removed by 2005, and replaced with a unified tax system.

Since China's accession, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) eliminated 830 rules and announced more than 2,300 amendments to the laws and regulations. In March 2003, the MOFTEC was dissolved and absorbed by the Ministry of Commerce (MOC). Any discrepancies among the legality, execution or judicial trading standards that deviate from the WTO agreements must be corrected by 2005.

### **B.1 Investment Incentives**

#### *Economic Zones*

To promote economic development in certain areas, the Chinese government has granted special status to 5 SEZs, and to 14 open coastal cities, as well as to several coastal open economic zones, high-technology development zones and free-trade zones. SEZs are located in Shenzhen (including Shekou), Zhuhai, Shantou

in Guangdong Province, Xiamen in Fujian Province and Hainan Province. The open coastal cities are Beihai, Dalian, Fuzhou, Guangzhou, Lianyungang, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Tianjin, Wenzhou, Yantai and Zhanjiang. The coastal open economic zones are located in Liaodong Peninsula, Shandong Peninsula, Changjiang and Pearl River Deltas, and Southern Fujian, including Zhangzhou and Quanzhou Delta Areas.

Special incentives and privileges, including the following, are accorded to foreign investors in these zones:

- Reduced corporate income tax rates;
- Tax holidays;
- Lower land-use fees; and
- Simplified entry and exit procedures.

***Grants***

The Chinese government generally does not provide specific grants or financial assistance to newly established entities.

***Tax Incentives***

For information regarding tax incentives available to certain entities, see Section C.4, page 38.

**B.2 Special Investment Considerations**

***Regulated Industries***

The State Council promulgated Regulations for the Administration of Foreign Invested Telecommunications Enterprises, which became effective on 1 January 2002. Under the regulations, telecommunications services are divided into two categories: basic telecommunications services and value-added telecommunications services. Foreign enterprises that engage in basic telecommunications services with coverage in more than one province must have a minimum registered capital amount of RMB 2 billion. For coverage within one province, the minimum registered capital amount is RMB 200 million. The foreign investors' share of equity in these enterprises may increase to 49% in the future.

Basic telecommunications services include the following:

- Fixed-network domestic long distance and local telephone services;
- Mobile voice and data communications services;
- Satellite communication and satellite mobile communications services;
- Internet and other public data transmission services;
- Leasing and sales of broadband, wavelength, fiber optic, optical cable, circuits and other network elements;
- Network carrier connection and network contracting services;
- International telecommunications infrastructure and services;
- Wireless paging services; and
- Sold-on basic services.

Operators of basic services must obtain an operating license from the PRC Ministry of Information Industry (MII). Operating licenses for basic services are awarded through public tender. An operator of basic services must be a company established exclusively to engage in basic services.

Foreign enterprises that engage in value-added telecommunications services with coverage in more than one province must have a minimum registered capital amount of RMB 10 million. For coverage within one province, the minimum registered capital amount is RMB 1 million. The foreign investors' share of equity in these enterprises may increase to 50% in the future.

Value-added telecommunications services include the following:

- E-mail;
- Voice mailboxes;
- Storage and searching of online databases;
- Electronic data exchange;
- Online data processing and transaction processing;
- Value-added facsimile transmission;
- Internet connection services;
- Internet information services; and
- Video conferencing services.

Operators of value-added services in a single province must obtain an operating license from a provincial level telecommunications authority. Operators providing such services across provincial borders must obtain a license from the MII.

### ***Financial System***

Entities engaging in financial activities, including banking, are subject to certain restrictions. Certain restrictions in this industry will be eliminated according to a timeframe that relates to China's accession to the WTO. For further details regarding the financial system in China and certain requirements, see Section A.4, page 8.

### ***Intellectual Property***

China recognizes intellectual property rights (IPRs) and has promulgated the Patent Law, the Trademark Law, the Copyright Law and subsequent measures to protect and enforce such rights. To receive protection under the laws, patents, trademarks and copyrighted works must be registered with the relevant authority. China is a party to the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs Agreement), as well as other intellectual property rights agreements.

In 1995, China and the United States signed an agreement regarding the protection of U.S. intellectual property. The agreement sets forth specific intellectual property rights protections and enforcement mechanisms to combat the piracy of audio and video products, computer software and compact discs. Under the agreement,

all existing factories must register with the relevant authority. Unlicensed operators will be shut down and their products will be treated as illegal publications. Enforcement task forces (ETFs) have been established to conduct inspections and carry out investigations of suspected infringements. ETFs are authorized to enter and search premises and to order the cessation of infringements pending an investigation. In the event an infringement is established, an ETF may impose fines and destroy infringing goods and tools without compensation.

Under customs measures promulgated in 1995 to protect intellectual property rights, holders of rights may apply in writing to the customs authorities for the protection of ownership of intellectual property imported into or exported from China. Upon approval, the customs authorities will issue a Customs Intellectual Property Rights Protection Recordal Certificate to the rights holder, which is prima facie evidence of ownership of the rights. In the event any suspected infringement occurs, rights holders may request the customs authorities to detain the suspected infringing goods upon submitting surety as security. If the People's Court determines that the goods are infringing, the customs authorities may confiscate the goods and return the surety to the rights holder after deducting any costs.

The government promulgated a series of measures in 1996 to control the import, publication and reproduction of recorded audiotapes, recorded videotapes, records, compact discs, laser discs, and other audio and video products. The State Press and Publications Administration must approve the import, publishing and reproduction of such products and the necessary permits must be obtained. In addition, the relevant authorities must examine the goods. Violation of these measures may result in the confiscation of illegal income, cessation of business and imposition of fines. In serious cases, criminal proceedings may be initiated against the offenders.

The 1996 measures specifically restrict the establishment of wholly foreign-owned investment entities to reproduce audio and video products. However, joint ventures, whether cooperative or equity, may be established with authorized publishers or reproducers in China, subject to the approval of the MOC and the Ministry of Culture. A Chinese partner must hold at least 51% of the registered capital of such joint ventures.

### *Patents*

The Patent Administration Department, which is controlled by the State Council, administers the registration of patents. Registration is governed on a priority basis. Chinese patent law encompasses not only patents for inventions, but also for unique utility models and designs. Patents may not be granted for scientific discoveries, methods of diagnosing or treating diseases, rules and methods for thought processes, animal and plant varieties, and substances obtained by means of nuclear transformation. Patents protect inventions for a term of 20 years from the date of filing the patent application. Patents protect utility models and designs for a term of 10 years.

An application for a Chinese patent is examined on the basis of novelty, inventiveness and practical application. Early publication and a deferred examination system are used to grant invention patents. A substantive examination is not performed for utility models and design patents. Under the system, an application is published 18 months from the date of filing. The applicant must request that the Patent Administration Department examine the substance of its application within three years from the date of filing, or the application may be deemed withdrawn. If a registration of the same patent has been filed in a foreign country, documents concerning its examination overseas must also be submitted at the time of making the request.

Foreign parties may assign or license their patents to a Chinese party without prior approval by the authorities. In such circumstances, the written contracts concluded will govern the rights and obligations of each party. For an assignment of patent rights to be effective, a contract must be registered and published by the Patent Administration Department. However, any assignment of patent rights by a Chinese entity or individual to a foreign national requires the approval of the relevant department of the State Council.

Foreign entities or individuals without a habitual residence or business office in China applying for a patent or having patent-related issues must appoint a patent agent designated by the State Council. The five patent agencies in China are the China Council for the Promotion of International Trade (CCPIT), the Shanghai Patent Agency, China Patent Agent (HK) Ltd., China Trademark Service and NTD Patent Agent. The relevant patent administration body or People's Court settles disputes regarding the ownership of patents.

### *Trademarks*

The Trademark Office of China is responsible for the registration and administration of trademarks. The right of priority governs the registration of trademarks. Registered trademarks include trademarks, service marks, collective marks, and certification marks that have been approved and registered with the Trademark Office. Trademarks must be "so distinctive as to be distinguishable." Marks do not qualify for registration if they are generic in nature, lack distinctive features, or have direct reference to the physical characteristics of the goods the trademark is representing. A registered trademark is valid for a term of 10 years from the date the registration is approved. A registration may be renewed for an additional 10-year period by filing a renewal application within six months of the trademark's expiration. If registration of the same trademark has been filed in a foreign country, documents concerning its examination overseas must be submitted when applying for registration in China.

Trademarks may be assigned or licensed in China if certain registration procedures are followed. The parties must sign written contracts to protect the parties' rights in an assignment or license of a trademark. For an assignment, the parties must jointly file an application with the Trademark Office. For a licensing arrangement, the parties need only submit the trademark licensing contract to the Trade-

mark Office. Foreign entities or individuals in China applying for registration of a trademark or with trademark-related issues must appoint a trademark agent designated by the state. If the Trademark Review and Adjudication Board cannot resolve a trademark issue, the issue may be brought before the People's Court.

### *Copyrights*

The Copyright Administration Department, which is controlled by the State Council, is responsible for the nationwide administration of copyrights. Copyright Administration Departments of the People's Government in each province, autonomous region and municipality under the central government administers copyrights in their respective administrative regions.

Copyrights protect the rights of publication, authorship, alteration, integrity, reproduction, distribution, rental, exhibition, performance, showing, broadcast, communication of information on networks, making cinematographic work, adaptation, translation and compilation. The rights of authorship, alteration, and integrity have an unlimited duration. All other rights are protected for a term of the life of the author plus 50 years (ending on 31 December) after the author's death. The copyright law protects works, regardless of whether published, of Chinese citizens, legal entities and organizations, as well as those of foreign nationals or stateless persons. Foreign nationals are not required to appoint an agent to apply for copyright protection.

The copyright law specifically addresses contract terms, remuneration, and rights of the parties regarding the publication of books, newspapers, and periodicals; performance; sound recordings and video recordings; and broadcasting by radio stations and television stations. Parties who exploit works created by others must conclude a contract with, or otherwise obtain permission from, the copyright owner.

Copyrights may be licensed or assigned without approval by the authorities. The terms of written contracts govern the rights and obligations of each party to the license or assignment. The People's Court resolves copyright related disputes.

### *E-Commerce*

E-commerce enhances China's economic competitiveness and provides a more transparent foreign trade system. The MOC will provide unlimited resources in developing e-commerce as an integral part of China's foreign trade strategy because it anticipates that technology will be the primary focus of international competition in the 21st century. The Department of International Electronic Commerce Administration (DIECA) administers the overall planning and promotion of e-commerce in foreign trade.

### *Government-Owned Industries*

Prior to the open door policy and subsequent economic reforms, competition was largely unknown in China. With the implementation of the hybrid economy

and the relaxation of trade barriers, state-owned enterprises (SOEs) must now compete with foreign products, FIEs and other domestic entities. China's accession to the WTO ensures that SOEs will make purchases and sales based solely on commercial considerations, such as price, quality, availability and marketability. The purchase of goods or services by SOEs does not constitute "government procurement" and is subject to WTO rules. The status of SOEs is clarified under the WTO Agreement on Subsidies and Countervailing Measures.

### ***Privatization***

As part of its economic reform policy, the Chinese government is now permitting SOEs to convert to joint stock companies. A SOE generally must apply to the local Commission for Economic Restructuring for approval to convert to a joint stock company. The enterprise's assets must then be revalued and approved. Once approved, the company's assets are divided into shares of equal value that may be freely transferred and listed. Employees may purchase "individual" shares and other enterprises may purchase "enterprise" shares. The objective of the reform is to separate government administration from management and make enterprises responsible for their own operating results.

In addition, foreign investors and private Chinese companies may acquire certain SOEs through mergers and acquisitions, except for SOEs that could greatly influence China's security or economy. The three most common types of mergers and acquisitions between foreign companies and SOEs are acquisitions of small SOEs, acquisitions of 25% to 100% of the assets of a domestic enterprise, and asset restructurings of a SOE with foreign investment.

### ***Restrictions on Foreign Investment***

#### ***Regulatory Environment***

As a socialist country, the government authorities closely monitor China's economy. The government determines the country's investment plans according to a five-year plan, with investment and production targets set annually based on the previous year's performance. The MOC or its local delegates must approve foreign-investment projects, depending on their size. Once established, foreign entities must report regularly to the local government agency in charge. Although all matters, including salary and wage rates, and pricing of products, raw materials and utilities supplies are subject to government oversight, centralized control is gradually being relaxed.

#### ***Restrictions***

Three basic laws regulate foreign investment in China: The Law on Chinese-Foreign Equity Joint Ventures, the Law on Chinese-Foreign Contractual Joint Ventures, and the Law on Wholly Foreign-Owned Enterprises. In early 2001, these primary laws for FIEs were revised in accordance with the framework of the WTO.

The Chinese State Council recently released a new Foreign Investment Directive, effective from 1 April 2002. The new directive incorporates China's WTO commitments and removes a number of restrictions previously imposed on foreign investments in certain industries. The guidelines establish four investment categories: Encouraged, Permitted, Restricted and Prohibited.

*Encouraged Foreign Investments.* The number of industries in the Encouraged category has increased from 186 to 262. Encouraged foreign investments include the following: developing new agricultural technology, energy and transportation projects; using advanced technology to improve product quality, raise economic benefits, and to produce new equipment and raw materials lacking in China; developing new markets and increasing international competitiveness of products; using new technology in energy and material saving, recycling of waste, and environmental protection; and developing resources and manpower in the Central Western region. Only Encouraged industries enjoy an exemption from duties on imported equipment. Projects that are classified in the Encouraged category may enjoy preferential treatment and tend to have higher rates of return.

*Permitted Foreign Investments.* Foreign investment projects that do not fall under the four categories are deemed to be Permitted foreign investment projects. As a general rule, Permitted projects that export all of their products are considered Encouraged projects. Restricted projects that export more than 70% of their sales volume are considered Permitted projects, subject to approval.

*Restricted Foreign Investments.* The Restricted category has decreased from 112 to 75 items. Restricted foreign investments include the following: projects that employ backward technologies; projects that do not conserve resources or improve the ecological environment; exploration projects of rare and precious mineral resources that are subject to the state's protective mining measures; and projects in industries the state is gradually opening.

*Prohibited Foreign Investments.* Prohibited foreign investments include the following: projects that are potentially harmful to the state or that damage the public interest; projects that pollute the environment, destroy natural resources or harm public health; projects that use large tracts of farmland and do not favorably protect and develop land resources; projects that endanger the security and effectiveness of military facilities; projects that use technologies specific to China in their production; and projects that are prohibited by government policies. The government will rescind foreign investments that violate the guidelines.

### ***Foreign Exchange Controls***

As a developing country, China imposed strict controls over its foreign exchange movements. However, to promote economic development and to attract increased foreign investment, the government has relaxed its foreign exchange controls in phases and permitted limited convertibility of renminbi. In 1998, the SAFE

introduced a measure that restricts certain capital account transactions and requires prior approval for certain current account items. Since 2001, the SAFE has again liberalized foreign exchange controls for both capital and current account items.

Under current rules, FIEs must open a current account and capital account with a designated foreign exchange bank. A current account deals with daily recurring transactions in the ordinary course of business and involves international receipts and payments including trading receipts and payments, service receipts, payments and unilateral transfers such as payments of royalties, repatriation of after-tax profits and dividends, remittances of after-tax wages and other income of foreign employees, and payments of interest on foreign debts. A capital account deals with imports and exports of capital, direct investments, and loans and securities investments such as repayments of principal on foreign debts, overseas investments, investments in FIEs and remittances of capital by FIEs after liquidation.

Foreign exchange transactions that are categorized as current account items no longer require the SAFE's prior approval, except for certain types of payments that require the submission of supporting documents to the SAFE for approval. In addition, a FIE may retain foreign exchange in its current account up to the maximum amount specified by the exchange control authorities as working capital. Any excess foreign exchange must be sold to designated foreign exchange banks. Foreign exchange in the capital account, however, requires the SAFE's approval.

The process for conversion of capital funds held in foreign currency by FIEs has been simplified since Circular 59 became effective on 1 July 2002. Under this new regulation, the responsibility of the SAFE to monitor foreign exchange has shifted to authorized foreign exchange banks. SAFE approval is no longer required if a FIE converts funds in a capital fund account. An authorized bank approved under Circular 59 is deemed authorized by the SAFE to deal with such transactions. An authorized bank approved by the SAFE may include a foreign bank. The following are requirements to qualify as an authorized bank:

- The bank must be qualified to convert foreign exchange;
- It has not violated any foreign exchange conversion rules under the capital account;
- It must have proper internal controls on FIE capital account limits and the management of capital funds; and
- It must have an efficient reporting system for unusual occurrences in business operations.

To synchronize foreign exchange controls for FIEs with domestic enterprises, the SAFE issued a notice, which is effective from 15 October 2002. Under the notice, all authorized domestic companies may apply to open foreign exchange accounts, similar to FIEs. In addition, domestic enterprises are no longer required to separate foreign exchange accounting for regular transactions and specific purposes.

### *Hold Accounts*

Nonresidents in China may open nonresident bank accounts for short-term durations with authorized banks and financial institutions.

Foreign banks may hold convertible local currency accounts in connection with commercial and noncommercial transactions.

### *Borrowing Abroad*

Companies receiving foreign exchange loans from banks or enterprises located outside China (including Hong Kong or Macau) must report the transactions to the SAFE. The SAFE closely monitors the foreign exchange activities of FIEs via a range of reporting requirements, including an annual budget of foreign exchange receipts and expenditures for the coming year. The SAFE is also authorized to inspect a FIE's foreign exchange books to verify its foreign exchange income and expenditures.

Residents borrowing from abroad are subject to strict controls. All such loans must be approved by and registered with the SAFE. The number of Chinese entities that may borrow directly from abroad is limited, with the amount of such lending subject to an annual credit and investment plan issued by the PBOC. Other Chinese entities may also borrow for authorized purposes, subject to case-by-case approval by the PBOC and upon application to the SAFE.

### *Remittances of Dividends and Profits*

Effective from 1 July 1996, the Chinese government permits free convertibility of foreign exchange relating to current-account items, which include the payment of dividends from after-tax profits. Under the law, transfers of after-tax profits or dividends of foreign investors in FIEs may be made from current accounts. Payments must be effected at designated foreign exchange banks and supported with written resolutions by the board of directors regarding the profit distribution.

### *Remittances of Interest and Principal*

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 banking account, which the Chinese enterprise opens itself, or through designated foreign exchange banks, which are subject to the SAFE's approval.

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.

### *Remittances of Royalties and Fees*

Transfer of royalties and fees may now be made either from a current account or by conversion and payment at a designated foreign exchange bank, with the presentation of supporting documents such as royalty agreements, invoices and other business documents.

### *Repatriation of Capital*

Repatriation of capital in foreign exchange is considered a capital-account item and is permitted only to the extent that the company possesses sufficient funds in its capital account. Foreign exchange and renminbi converted into foreign exchange arising from the liquidation of a FIE may be remitted, subject to the approval of the SAFE.

### *Documentation for Remittances*

All payments and remittances abroad are subject to government control. Under a regulation issued by the SAFE, effective from 1995, all FIEs must submit an annual Foreign Exchange Examination Report prepared by a Chinese-registered certified public accounting firm. The report must include the FIE's status of foreign exchange registration, capital contribution, foreign exchange bank accounts maintained and overall foreign exchange balance position. The report must also contain a summary of foreign exchange transactions conducted and foreign exchange debts borrowed and repaid.

FIEs meeting all requirements are issued an "approved" certificate and may conduct direct foreign exchange buy/sell transactions at local foreign exchange centers. FIEs that do not meet the requirements, including FIEs that fail to submit a report, are not granted direct access to foreign exchange centers and must obtain the specific approval of local foreign exchange control authorities for each foreign exchange transaction.

Effective from 1 March 2000, all Chinese registered enterprises are required to obtain tax clearance documentation from the local tax authorities to remit non-trading type payments to overseas entities for amounts exceeding US\$1,000. Payments of direct expenses, including employee travel expenses and product promotion expenses incurred by the company are exempt from the tax clearance documentation requirement.

### *Investment Verification*

The MOF and SAFE issued a notice that is effective from 1 May 2002, which illustrates the directive regarding the examination and approval process for capital contributions from foreign parties of FIEs and issues related to most foreign exchange registrations. The notice aims to strengthen the administration of foreign investors' capital verification and foreign investment foreign exchange registration. Under the notice, a CPA must follow the procedures set forth in a detailed checklist to verify a capital contribution from a foreign party to any FIE.

Coordination with relevant banks and the SAFE is paramount to ensure that all foreign exchange transactions are carried out in accordance with the new notice. FIEs engaging in foreign exchange transactions and inspections must present their investment verification report and other relevant documents to the SAFE branch and authorized bank.

### **B.3 Regional and International Trade Agreements and Associations**

China has established diplomatic relations with more than 130 countries and has engaged in economic, trade, scientific, technological and cultural exchanges with more than 190 countries and regions to attract foreign investment.

China joined the United Nations (UN) in October 1971 and serves as a permanent member of the UN Security Council. China is also a member of more than 480 international organizations, including the International Monetary Fund, the World Bank, the Asian Development Bank, and since December 2001, the World Trade Organization.

### **B.4 Major Trading Partners and Leading Exports and Imports**

#### ***Major Trading Partners***

China has trading surpluses with Hong Kong, the United States, the United Kingdom and Singapore, but it has deficits with Japan, Taiwan, Germany and Korea.

#### ***Leading Exports and Imports***

China is a significant exporter of industrial machines, electrical equipment and electronics products, as well as textiles, fabrics and related products.

China's leading imports include machines, transport equipment and manufactured goods.

For a list of China's leading exports and imports, see Appendix 5, page 73.

### **B.5 Importing and Exporting**

#### ***Restrictions***

Foreign trade is subject to controls to protect the domestic market, limit the use of foreign exchange for imports and ensure that exports will not result in insufficiencies in the domestic market. Foreign trade is regulated primarily through import and export licensing and quotas. The MOC is the authority responsible for setting foreign trade policies and issuing import and export licenses. FIEs that import and export products subject to controls must first obtain a relevant license from the MOC. Commodities subject to license and quota controls are determined by the MOC annually, according to domestic and foreign market conditions, government policies and foreign trade laws.

### *Import Controls*

The government issues notices of goods that are prohibited from being imported into China and goods that are subject to licensing and quota control. Prohibited goods include weapons, drugs and goods capable of carrying disease. Because the government has a policy of liberalizing trade, the number of categories of goods subject to import controls has diminished. FIEs, when importing capital investments and raw materials for production, must obtain the necessary licenses unless such items are used for export-oriented production. FIEs must submit their import plans every six months to obtain an import license.

### *Export Controls*

Goods that are prohibited from being imported into China are also prohibited from being exported from China. In addition, information that carries state secrets and articles of cultural value are also prohibited from being exported. FIEs must apply for export licenses every six months on the basis of an annual export plan to obtain an export license valid for the current year.

### *Customs Duties*

Customs duties are imposed on imports and exports at various rates. All customs houses in China are under the direction of the General Administration of Customs of China, which reports to the State Council. On 1 January 2001, a new Customs Law entered into effect to bring China's customs practices into conformity with WTO rules. The new Customs Law reduces tariffs and eliminates quotas for many products, uses new customs valuation methods, phases in new trading rights for different types of enterprises, allows importers to seek advanced rulings and appeal unfavorable customs valuations, phases out export controls and various government subsidies, grants importers the right to amend/cancel their customs declaration as well as examine their goods prior to customs declaration, and authorizes the customs authorities to request importers to provide information related to customs classification and conduct tests and inspections. For example, as part of its WTO market access commitments, China has promised to reduce industrial tariffs by 62% to an average rate of 9.4% and eliminate all import quotas by 2005. By 2005, the average duty rate on agricultural products will decrease from an average rate of 50% to 15%. By 2006, tariffs for automobiles and automobile parts are expected to decrease to 25% and 10%, respectively. Finally, as a signatory to the Information Technology Agreement (ITA), China has committed to reduce the duty rate on all information technology products to a zero rate by 2005.

### *Valuations*

Customs duty is a product of the customs value of an imported product and its applicable tariff rate or duty rate. China uses six different valuation methods applied on a hierarchical basis to determine the customs value for a given product. The valuation methods must be applied in the following order: Transaction

Price, Transaction Price of Identical Goods, Transaction Price of Similar Goods, Deductive Value or Resale Minus Approach, Computed Value or Cost-Plus Approach, and Fallback Approach, which applies at the discretion of the authorities. A later method may only be used if a previous method is impossible to apply. The Deductive Value or Resale Minus Approach and the Computed Value or Cost-Plus Approach may be used interchangeably at the importer's discretion.

Customs duties are assessed based on the following classifications of duty rates: Rate granted to Most Favored Nations (WTO members), Rate granted to Trade Treaty Territories (non-WTO members that have a Trade Treaty with China), Rate granted to Special Treaty Territories (non-WTO members that have a Special Treaty with China), and Normal or "Other" Rate (all other countries). China complies with the WTO Agreement on Rules of Origin, which states that the country of origin of a product entering China is the last country in which the product underwent substantial transformation. Substantial transformation is defined as either a change in the tariff classification at the four-digit level between the components and the finished product or whether the value-added component constitutes 30% or more of the total value of the new product.

China has adopted the Harmonized System of Classification for customs tariffs. Harmonization allows customs authorities worldwide to converse in the same "language" and enables customs authorities and importers to easily identify particular types of products. For a particular type of product, the classification system provides information on duty rates, quotas, licensing and other restrictions.

Because certain differences may exist in the interpretation of tariff regulations from one region to another, business executives contemplating doing business in China should seek specialized advice at an early stage regarding whether tariffs apply to their operations.

### *Advance Rulings*

Under the new customs law, importers and exporters may apply for advance rulings on the classification of goods, as well as on a variety of other customs issues. Customs headquarters must make these rulings available to the public. Importers also have the right to require China to provide a written explanation of its customs valuation of a product, appeal a local port's valuation decision to Customs Headquarters and, if necessary, challenge valuation decisions in the People's Court.

### *Penalties*

The statute of limitations for normal customs cases is three years, but is unlimited for smuggling cases. Penalties of up to four times the duty value paid may be imposed for customs violations. Serious violations may even result in criminal sentences and the loss of import/export rights.

### *Documentation Requirements*

All items imported or exported generally must be accompanied by the appropriate license. Only approved entities are granted the right to issue such licenses. All FIEs are granted the right to export items manufactured or produced by the venture. Foreign trade corporations authorized by the MOC to conduct import businesses must have a general license to import commodities within their approved scope of business.

### *Antidumping Regulations*

In March 1997, the government enacted Regulations on Antidumping and Opposition to Subsidies. The subsidizing of goods imported to China at a price less than the normal value of the goods in the exporting country is prohibited. The objective of the law is to protect the market for domestic products of an identical or similar nature. In the event dumping is established, the relevant authority may levy antidumping tariffs on the goods.

### *Consumption Tax and Value-Added Tax*

Other import related taxes include a consumption tax and value-added tax (VAT). Consumption tax is imposed on luxury items, including motor vehicles, tobacco, cosmetics, jewelry and liquor. VAT is imposed on imports unless an exemption is granted. Materials and parts imported exclusively for the production of export-oriented goods are exempt from import duty and VAT.



## **C. Companies**

### **C.1 Forms of Enterprise**

Three primary sectors operate within the Chinese economy: state-owned, collective and private. The state-owned and collective sectors are limited exclusively to domestic businesses. The private sector consists of individually owned Chinese businesses, as well as all foreign business entities.

#### ***Structures Used by Domestic Entities***

Located mostly in urban areas, state-owned enterprises (SOEs) are primarily large concerns operating in critical areas of the economy, including post and communications, transportation, pharmaceuticals, energy and heavy industry. Many SOEs are inefficient and unproductive. Contributions to industrial output by SOEs have declined from a peak of 90% in 1965 to 51% in 2000, primarily because the goods produced are not capable of being sold and a significant part of the assets are operating under capacity. In 2000, approximately 35% of SOEs posted operating losses totaling RMB 61.5 billion. The total debt owed by SOEs increased to RMB 5.125 trillion, accounting for 61% of total assets.

To stimulate the economy, the government has implemented policies to reform SOEs by granting the entities autonomy in management, requiring them to establish an independent accounting system and holding them fully responsible for their financial affairs. More significantly, the state is reducing its holdings in certain SOEs by allowing them to form joint stock companies and to list shares on domestic and foreign stock exchanges. SOEs are also being restructured through mergers and acquisitions. As a result of these reforms, noncompetitive SOEs will be financially unviable.

Collective enterprises (COEs) are formed by private individuals and domestic business organizations in rural areas. Because approximately 70% of the population resides in rural areas, COEs were originally established to promote employment opportunities and economic development of rural areas. Most of the COEs are in the light industrial sector and produce consumer-oriented products. Although COEs are generally smaller than SOEs and are located primarily in rural areas, they are more entrepreneurial than their state-owned counterparts. Contributions to industrial output by COEs accounted for approximately 13.8% in 2000.

Private or individually owned enterprises, located in both rural and urban areas, operate primarily in the services sector, but also engage in small-scale industry and commerce.

#### ***Joint Stock Companies***

The Company Law of the PRC governs the establishment, organization and operation of joint stock companies. The two primary organizational forms of joint stock companies in China are limited liability companies and companies limited

by shares. The Company Law does not apply to many existing Chinese business entities, including SOEs, COEs, private enterprises (enterprises individually owned by Chinese nationals), joint ventures and wholly foreign-owned enterprises, unless they are converted into one of the two types of joint stock companies.

A joint stock company is an entity with limited liability in which shareholders contribute all registered capital and the capital is represented by shares. Shareholders participate in management, enjoy rights and interests, and assume risks according to their shareholdings.

The objective of permitting the establishment of joint stock companies is to reform the system of enterprise management. By separating government administration from enterprise management and by changing the structure of ownership, Chinese leaders hope to improve the operating efficiency and autonomy of companies. Enterprises represented by shares also open new channels of finance, and encourage increased and more effective foreign investment.

#### *Limited Liability Companies*

A limited liability company is a legal entity in which the investors' liability is limited to their respective investment contributions. The company itself is liable for its obligations only to the extent of its total assets. A limited liability company must have at least 2 but no more than 50 shareholders. Capital contributions may be made with cash or assets. The minimum capital requirements range from RMB 100,000 to RMB 500,000, depending on the nature of the business. Registered capital must be certified and investment certificates issued to all investors. Shareholders may transfer among themselves all or part of their capital contributions. Capital may be transferred to third parties if a majority of the investors approve such a transfer. Because capital is not divided into shares, such companies do not have the option to raise capital in the stock market.

Management powers are vested in the investors, not the directors. A board of directors comprises from 3 to 13 members.

#### *Companies Limited by Shares*

A company limited by shares is an enterprise with the status of a legal person. A company limited by shares may be formed by promotion or by offering shares to the public. The company must have at least five promoters, more than half of which must be domiciled in China. Total registered capital is equivalent to the value of all shares. The minimum amount of registered capital is RMB 10 million, and for listed shares, the minimum amount is RMB 50 million. The capital is divided into shares of equal value, which are evidenced in the form of share certificates. Shares may be freely transferred, however, shares held by the promoters may not be transferred within three years of the company's date of establishment.

A company limited by shares raises capital by issuing share certificates (or share equity certificates) either by promotion or by offer. Shares may be issued at par value or at a premium and shares of the same class carry equal rights. Shareholder liability is limited to the amount of shares purchased and the company is liable for its obligations to the extent of its assets. Capital contributions may be made in cash or assets. Similar to limited liability companies, management powers are vested in the shareholders. The company's board of directors is composed of 5 to 19 members.

### ***Foreign Investment Enterprises***

In general, FIEs must contribute to the development of China's economy and promote exports. FIEs may be in the form of Sino-foreign equity joint ventures, cooperative or contractual joint ventures, wholly foreign-owned enterprises, holding companies and foreign investment companies limited by shares.

A FIE's contract and articles of association must provide for the enterprise's duration or operation period. In general, the duration ranges from 10 to 30 years, depending on the nature of the business. A FIE may apply to extend its duration six months before the expiration of the venture's term. FIEs may hire Chinese employees directly, without the use of government employment agencies.

### ***Equity Joint Ventures***

Equity joint ventures (EJVs) are governed by the Law on Joint Ventures Using Chinese and Foreign Investment and by related regulations concerning registration, taxation, labor, accounting, minimum equity requirements and contributions of registered capital.

An EJV must be formed as a limited liability company and have the status of a legal entity. Parties to the joint venture may include Chinese corporations, enterprises or other entities, and one or more foreign companies, enterprises or individuals.

Under the Law on Joint Ventures, joint ventures must promote the development of China's economy and meet at least one of the following requirements:

- Adopt high-technology equipment and scientific management to increase product variety, quality, output, energy or materials conservation;
- Promote technological upgrades in enterprises, resulting in less investment, quicker returns and greater profitability;
- Produce export-oriented products and increase foreign-currency income; or
- Enable the training of technical and managerial personnel.

Capital contributions may be made in the form of cash, equipment and machinery, technology and industrial property rights, and other assets. By law, the foreign party must contribute at least 25% of the total registered capital. In practice, the capital contribution percentage is normally closer to 50% for each investor.

The most common contributions from Chinese partners are land use rights, labor, factory buildings and raw materials. Capital contributions may be made in one lump sum or installments. In the case of one lump sum payment, contributions must be made within six months from the date of the business license. For installments, the first installment must be at least 15% of each party's share and must be made within three months from the date of the business license. Capital may be transferred to third parties if the other party approves the transfer. Parties share profits and bear risks and losses in proportion to their equity contributions.

A Chinese partner to the joint venture can greatly assist foreign investors in interacting with government officials, accessing the labor market and material supply sources and, if appropriate, accessing the domestic market.

On 16 March 2000, the NPC passed an amendment to the Law on Joint Ventures. Under the amendments, EJVs are no longer required to file their production and business plans with their departments in charge and implement such plans through economic contracts. EJVs are also no longer required to grant priority to purchasing local raw and processed materials, fuels and auxiliary equipment, but may purchase necessary materials inside China or from the overseas market according to standards of what is fair and reasonable.

#### *Wholly Foreign-Owned Enterprises*

The Law on Sole Foreign Investment Enterprises governs wholly foreign-owned enterprises (WFOEs). More than 65% of newly approved foreign enterprises in the PRC are in the form of WFOEs. Generally, a WFOE is formed as a limited liability company, but may be established as another form of entity upon government approval. Foreign investors may remit abroad profits earned from the enterprise or other income. Similar to EJVs, WFOEs must promote the development of China's economy.

Under amendments to the law concluded on 31 October 2000, WFOEs are no longer required to balance their foreign exchange or give preference to the use of domestic materials and fuel. In addition, WFOEs are not required to report their production and business plans to the government authorities. In addition, instead of requiring WFOEs to export most of their products or use high technologies and advanced equipment, the Chinese government encourages the establishment of export-oriented and high-technology WFOEs.

#### *Cooperative Joint Ventures*

The Law on Sino-Foreign Cooperative Enterprises governs cooperative or contractual joint ventures (CJVs), which are based on contracts between venture partners. CJVs are formed to develop projects that have a limited duration and a specific objective, such as the construction of a building, hotel or factory. The venture must be in the form of a limited liability company and have the status of a legal entity, unless the cooperative contract stipulates otherwise. In the event the venture is not a legal entity, each party must pay its taxes on the profits derived from the venture and bear its own liability for debts and losses.

In contrast to EJVs, CJVs offer greater flexibility in structuring investment contributions because they are governed according to the provisions of the contract entered into by the partners. The approval and registration process for a CJV is similar to that of an EJV. The parties to a CJV may use buildings, equipment, land-use rights, technologies, intellectual properties and other assets as investment contributions.

The parties may agree to the method and timing of profit distributions. For example, one of the parties may obtain a portion of the product produced by the joint venture, or different profit-distribution ratios may be applied to the parties for different years of operation. In addition, arrangements may be made to enable the foreign partner to recover its investment before the expiration of the joint venture.

Under amendments to the Law on Sino-Foreign Cooperative Enterprises on 31 October 2000, similar to WFOEs, CJVs are no longer required to balance foreign exchange or give preference to the use of domestic materials and fuels.

#### *Chinese Holding Companies*

In 1995, the government promulgated Interim Provisions on the Setting Up of Foreign-Backed Investment Companies, which permit foreign investors to form holding companies in China (CHCs), subject to the approval of the MOC. The law aims to attract foreign investors with advanced technology and management expertise to China. A CHC may be a wholly foreign owned or joint venture investment vehicle that groups multiple investments together in China. CHCs must be in the form of limited liability companies with a minimum registered capital amount of at least US\$30 million. Unlike joint ventures and WFOEs, contributions must be made in cash, and the injection of assets is not permitted. Foreign investors must contribute in a freely convertible currency and Chinese investors may contribute in RMB. The capital must be fully paid up within two years after the business license is issued. If the foreign party's share of registered capital is at least 25%, the company may enjoy the same treatment granted to FIEs.

Foreign and Chinese investors in CHCs must meet certain requirements. Foreign investors meet either of the following requirements:

- Deemed to be of good creditworthiness: In the preceding year of application, the investor's total assets may not be less than US\$400 million, the investor must have invested more than US\$10 million in an enterprise in China and must have more than three of its investment proposals approved. This last requirement may be relaxed if one of the projects is a particularly large-sized project.
- Deemed to be of good creditworthiness: The investor must have invested more than US\$30 million in 10 or more enterprises in China that are engaged in the production or construction of infrastructure facilities.

Chinese investors must meet the following requirements:

- The investor must have good creditworthiness; and
- The investor must have total assets of not less than RMB 100 million.

CHCs may engage in the following functions and activities:

- A CHC may support various lower-tier entities. For example, as a holding company, a CHC may assume all costs and recharge the expenses to lower-tier entities or carry forward the expenses to offset other income of the CHC.
- A CHC may act as a centralized distributing and sourcing agent to save costs and minimize duplicate sales and purchasing personnel. The reduction of cost may yield direct tax benefits because production enterprises are granted tax exemptions and reductions in their initial years of operation. In addition, costs may be recharged to lower-tier entities on a cost-sharing basis to maximize the tax deduction of each individual lower-tier entity.
- With the approval of the PBOC, CHCs may establish a finance company to provide funding and currency swap services to all lower-tier entities. Finance companies may operate in the Pudong New Development Zone in Shanghai, which applies business tax to interest income at a rate of 5% and corporate income tax at a rate of 15%.
- A CHC may redirect dividends from subsidiaries in China to other PRC investment projects and obtain tax refunds from 40% to 100% if reinvested in technologically advanced or export-oriented enterprises, provided that dividend allocations are declared.
- A CHC may employ local PRC nationals in its own name without using authorized employment agencies.

#### *Foreign Investment Companies Limited by Shares*

Chinese and foreign investors may establish a company limited by shares. In addition, FIEs, particularly production enterprises that use advanced technologies, may be transformed into foreign investment companies limited by shares and the shares may be listed both in China and overseas.

A FIE must meet the following requirements to qualify for transformation into a foreign investment company:

- The FIE must have no fewer than five promoters. At least one promoter must be a foreign shareholder.
- The FIE must have earned profits for a three-year period.
- The FIE must have minimum registered capital of RMB 30 million and RMB 50 million if the shares are listed.
- The FIE's obligations under its original contract and articles of association must be incorporated into the new promoters' agreement and articles of association.
- Foreign investors must contribute 25% or more of the registered capital.

The MOC must approve a FIE's transformation into a foreign investment company limited by shares to list "A" shares. "A" shares may be purchased by Chinese nationals and traded in RMB. A FIE with listed "A" shares generally has better access to local Chinese capital and often trades at a higher P/E ratio than its "B" share counterparts.

### ***Foreign Enterprises and Other Arrangements***

Foreign enterprises (FEs) are forms of foreign companies' activities and operations other than FIEs. These activities and operations include representative offices, contracted projects and foreign companies receiving income and payments from Chinese sources other than contractual agreements.

Other types of business arrangements include leasing and licensing arrangements, compensation trade arrangements, counter-trade arrangements, processing and assembly agreements, and direct sales. In general, only certain foreign business entities may establish representative or branch offices.

### ***Representative Offices***

Foreign companies may establish representative offices in China under limited conditions. Representative offices may only engage in indirect operating activities, including liaison work, consulting, market research, general information gathering, and sourcing and procurement of products and materials. Representative offices may not conclude or direct product sales. In addition, a representative office may not employ local Chinese nationals in its own name. The office must use employment agencies.

To establish a representative office, a foreign company must have a local Chinese organization sponsor its application, and must complete a formal registration process. Currently, most foreign companies are not permitted to establish branch offices in China.

### ***Branch Offices***

Currently, only FIEs, foreign banks, foreign insurance companies and foreign law practices may establish branches in China with the approval of the relevant authorities. All other businesses are not allowed to establish branches in the PRC because clear regulations on establishing branch offices for other industries do not exist. A foreign company must appoint a representative in charge of the branch and must allocate operational funds to the branch. Branches of foreign companies in China do not have the status of Chinese legal entities, that is, the foreign company itself assumes civil liability for the operational activities of its branches in China.

### *Other Arrangements*

*Leasing and Licensing Arrangements.* Leasing generally involves a foreign company, either a leasing company or an equipment manufacturer, providing machinery and equipment to a Chinese enterprise in return for fixed lease payments over a certain time period. For licensing of intangible assets, the payments are normally made in the form of royalties.

*Compensation Trade Arrangements.* Compensation trade, also known as product buy-back, refers to projects in which a foreign company provides machinery and equipment for which it receives payment-in-kind, usually in the form of goods produced. These payments, which may be structured as loans or installment sales, are exempt from PRC income tax if the arrangements do not involve the transfer of technology.

*Counter-Trade Arrangements.* Counter-trade is similar to compensation trade and may be referred to as barter trade. In this arrangement, Chinese goods or commodities are exchanged for foreign equipment, services or commodities. This method of trading is generally conducted between governments. Smaller trades may be arranged between Chinese and foreign companies at the provincial and municipal levels.

*Processing and Assembly Agreements.* Processing and assembly agreements are generally projects in which a Chinese party provides a factory, power and labor, and a foreign company provides raw materials or parts. Either party may provide the necessary equipment. After paying a processing or assembly fee, the foreign partner sells the finished goods in the overseas markets. These arrangements are similar to a labor and factory rental arrangement because the foreign company has exclusive management rights over the Chinese enterprise.

*Direct Sales.* Foreign manufacturers or sellers may sell goods directly to Chinese enterprises.

## **C.2 Mergers and Acquisitions**

### *Types of Transactions*

A merger occurs when two or more enterprises merge into one enterprise in accordance with the relevant laws and statutes. A company may acquire a listed company through a stock buy-out.

FIEs in China may engage in the following two types of mergers:

- Absorption: A merger in which one or more enterprises acquires another party. The acquired enterprise dissolves and the acquiring enterprise survives.
- New establishment: A merger in which two or more enterprises merge to become a new company. The original entities dissolve in this transaction.

A division occurs when an enterprise divides into two or more enterprises in accordance with the relevant laws and statutes. FIEs in China may engage in the following two types of divisions:

- **Continuosity:** A company splits into two or more new companies and survives the division.
- **Dissolution:** A company divides into two or more new companies and dissolves itself.

For mergers between Chinese domestic companies and FIEs, regulations provide that the restructured domestic companies must be established under the Company Law in the forms of limited liability companies or companies limited by shares.

### ***Regulatory Procedures and Restrictions***

A company involved in a merger or division must provide notification to its creditors and a public announcement. A merger or division is not allowed if the investors have not made their capital contributions in full. The parties to a merger or division must sign an agreement for the transaction, which must be approved by the parties' investors, board of directors and shareholders. After signing the agreement, the parties must submit a merger or division application to the relevant government authorities for approval. To register an amendment to or cancellation of a merger or division, applications must be submitted to the local office of the State Administration for Industry and Commerce and to the appropriate tax authorities within 30 days of receiving municipal government approval. The municipal government may not approve a merger that violates state legislation prohibiting monopolies or irregular competition.

The current regulations stipulate that a merger or division must comply with China's primary regulation regarding foreign investment. Under the regulations, a merger or division involving FIEs may not result in a foreign investor becoming the sole investor or holding a controlling interest or dominant position of a FIE in a particular industry or sector that is prohibited to foreign investors. Foreign investors in a merged or divided FIE must hold an equity interest of at least 25% of the registered capital. In a division, the sum of the registered capital of the divided FIEs must be equal to at least the total amount of the registered capital of the original company.

A merged FIE assumes full responsibility of all claims and debts of the dissolved FIE(s) as a result of the merger. Following a division, the divided FIEs assume the claims and debts of the original FIE in accordance with the provisions of the division agreement.

### ***Tax Consequences***

For a discussion of the tax consequences of mergers and acquisitions, see Section C.7, page 44.

### **C.3 Corporate Taxes at a Glance**

National Corporate Income Tax Rate (%)	30 (a)
Local Corporate Income Tax Rate (%)	3 (a)
Capital Gains Tax Rate (%)	33
Branch Tax Rate (%)	33
Withholding Tax (%)	
Dividends	10 (b)
Interest	10
Royalties from Patents, Know-how, etc	10 (c)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) Lower rates may apply to establishments operating in specified locations in China.
- (b) Dividends remitted abroad by FIEs and FEs are exempt from withholding tax.
- (c) A reduced rate may apply to certain qualifying royalties that have preferential transfer terms.

### **C.4 Taxes on Corporate Income and Gains**

#### ***Corporate Income Tax***

The PRC income tax system discussed in this section refers to rules specifically applicable to business operations with foreign investments, including Sino-foreign equity joint ventures (EJVs), cooperative joint ventures (CJVs) and wholly foreign-owned enterprises (WFOEs) and other forms of business activities and operations conducted by foreign companies. Domestic state-owned enterprises (SOEs) are subject to tax at a rate of 33%. A different set of tax computation rules applies to these enterprises.

All foreign investment enterprises (FIEs) and foreign enterprises (FEs) are subject to the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises, which is levied by the central government. In addition, local authorities are entitled to levy a surcharge and collect certain registration and license fees. FIEs include EJVs, CJVs and WFOEs. A FIE is subject to tax on its worldwide income. However, a foreign tax credit is allowed for income taxes paid to other countries by branches of the FIE, limited to the PRC income tax payable on the same income. If CJVs are not legal persons, the parties to the joint ventures may elect to be taxed separately on their share of the income received or, with the approval of the local tax bureau, taxed as a single entity.

FEs include foreign companies, enterprises and other economic organizations such as representative offices, contracted projects and royalty arrangements. FEs are subject to tax only on their income from PRC sources. The taxation of FEs

depends on whether the enterprise has an establishment in China. FEs with establishments in China are subject to tax on all income derived from the PRC; however, those without establishments in the PRC are subject only to withholding tax on income from PRC sources.

The term “establishment” is broadly defined to include the following: a place of management; a branch; an office; a factory; a workshop; a mine or an oil and gas well or any other place of extraction of natural resources; a building site; a construction, assembly, installation or exploration project; a place for the provision of labor services; and business agents.

### ***Rates of Corporate Tax***

In general, FIEs and FEs with establishments in China are taxed at an effective rate of 33% (national tax rate of 30% plus local tax rate of 3%).

A reduced rate of 15% applies to FIEs and FEs with establishments in China located in Special Economic Zones (SEZs), which are in Shenzhen (including Shekou), Zhuhai, Shantou in Guangdong Province, Xiamen in Fujian Province and Hainan Province. The reduced rate of 15% also applies to FIEs engaged in production or manufacturing activities located within the Pudong Development Zone in Shanghai and within the Economic and Technology Development Zones of the 14 Open Cities, which are Beihai, Dalian, Fuzhou, Guangzhou, Lianyungang, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Tianjin, Wenzhou, Yantai and Zhanjiang. FIEs engaged in infrastructure projects, including energy, transportation and port development, are also taxed at the reduced rate of 15%.

FIEs engaged in production and manufacturing activities located within the Coastal Open Economic Regions (Liaodong Peninsula, Shandong Peninsula, Changjiang and Pearl River Deltas, and Southern Fujian, including Zhangzhou and Quanzhou Delta Areas) and within the 14 Open Cities, Provincial Capitals and Changjiang Cities, are taxed at a reduced rate of 24%. FIEs engaged in production and manufacturing activities in Beijing and Chongqing are also taxed at a reduced rate of 24%.

For a sample corporate tax calculation, see Appendix 6, page 74.

### ***Tax Incentives***

The following enterprises may qualify for tax holidays and significant reductions in the applicable tax rate:

- FIEs engaged in production and manufacturing activities with an operating period of 10 years or more;
- FIEs engaged in production and manufacturing activities in SEZs, the Pudong Development Zone, and Economic and Technology Development Zones;
- Export-oriented and technologically advanced FIEs; and
- Infrastructure projects in SEZs and in the Pudong Development Zone scheduled to operate 15 years or more.

### *Start-up Tax Benefits*

FIEs engaged in production and manufacturing activities are granted favorable tax treatment during their start-up period. These entities are granted a two-year tax exemption and a three-year 50% tax rate reduction beginning from the venture's first profit-making year. In addition to the initial five-year tax holiday, China also grants special tax concessions for certain priority industries, low-profit operations and projects in remote or economically depressed areas.

### *Reinvestment Tax Incentives*

Foreign investors reinvesting their share of profits in the same investment venture or in a newly created foreign investment venture for a period of five years or longer are entitled to a 40% refund of the tax paid on the amount reinvested. The tax refund increases to 100% if the reinvestment is in an export-oriented or technologically advanced enterprise.

### *Export-Oriented Enterprises and Technologically Advanced Enterprises*

A FIE that exports 70% or more of its total output value for any year may enjoy a further 50% tax reduction for that year after the end of the five-year tax holiday. Enterprises that are already subject to a reduced tax rate of 15% and that are eligible for the reduction applicable to export-oriented enterprises are subject to corporate income tax at a rate of a 10%.

If a FIE qualifies as a "technologically advanced enterprise" after the tax holiday period, it is granted a three-year extension of the 50% tax reduction.

### *High-Technology Development Zones*

China has established more than 110 high-technology industrial development zones to promote the development of technology. Enterprises in such development zones enjoy a reduced tax rate of 15%, a tax holiday for the initial period and other preferential treatment.

### *Capital Gains and Losses*

Capital gains and losses are subject to the same treatment as other taxable income. Capital gains realized by foreign investors who dispose of an interest in a FIE are subject to a 10% withholding tax, even if the gain is realized outside the PRC.

In addition to income tax, real property gains tax is imposed on gains derived from transfers of real property.

### *Administration*

The tax year in China is the calendar year. An annual return, together with an audited financial statement issued by a CPA registered in the PRC, is due within four months after the close of the tax year for all FIEs and FEs with establishments in the PRC. Such enterprises must settle all outstanding tax liability within five months after the end of the tax year. FIEs and FEs with establishments in

the PRC must also file quarterly provisional returns within 15 days after the end of each quarter, together with payments of provisional tax based on actual profit. If an enterprise has difficulty filing a provisional tax return based on the actual quarterly profit, it may pay tax based on its estimated profit. The estimated profit is normally computed by reference to one-quarter of the enterprise's actual profits for the preceding year. Otherwise, the estimated profit is computed using other methods approved by the tax bureau.

### ***Foreign Tax Relief***

A tax credit is allowed for foreign taxes paid by FIEs to other countries, not to exceed the relevant PRC tax payable on such income. Excess foreign tax credits may be carried forward for a period of five years.

China has concluded double taxation agreements with most European and Asia-Pacific countries, Canada and the United States. The terms of most treaties are modeled on the United Nations Double Taxation Convention Between Developed and Developing Countries, which encourages investment by industrialized countries in less developed countries. For a list of China's double tax treaties with other countries, see Appendix 7, page 75.

## **C.5 Determination of Taxable Income**

### ***Starting Point for Determining Taxable Income***

Taxable income is defined as revenues less deductible expenses based on accounts prepared in accordance with the Accounting Regulations of the PRC for Enterprises with Foreign Investment (also applicable to FEs by reference). No differences exist between tax and accounting methods to compute income. Taxable income includes dividends, bonuses, interest, royalties, rent and other income. However, dividends received by FIEs from other FIEs in the PRC are exempt from tax.

### ***Deductions***

All necessary and reasonable expenses incurred in carrying on a business are deductible for tax purposes. Employee expenses are fully deductible. Entertainment expenses related to production or operations are deductible subject to limitations and must be substantiated with supporting documentation. For head office expenses, only actual amounts paid, properly documented and verified by a CPA registered in the country of the head office are deductible. For interest on loans, only reasonable amounts are deductible.

Nondeductible expenses include interest on equity capital, income tax payments including penalties and surcharges, royalties paid to the head office and other expenses not related to production or operations.

### *Inventories*

Inventory valuation is based on historical cost, computed using one of the following four methods: first-in, first-out (FIFO); moving average; weighted average; or last-in, first-out (LIFO). The local tax authorities must approve any change in the adopted method. The principle of lower of cost or market value does not apply. A provision for stock obsolescence is generally not permitted, but write-offs for actual obsolescence are allowed.

### *Provisions*

FIEs operating as financial institutions may establish bad debt allowances. However, the allowances may not exceed 3% of the year-end balance of loans receivable.

Unrealized foreign exchange gains or losses may be recognized or amortized over one to five years, subject to approval by the local tax authorities.

### *Depreciation and Amortization Allowances*

Depreciation of tangible properties must be computed using the straight-line method. Unless approval is obtained from the tax authorities, the residual value of fixed assets may not be less than 10% of cost. The tax authorities must approve the use of accelerated depreciation.

The following table lists minimum useful lives for certain assets.

<i>Asset</i>	<i>Years</i>
Buildings	20
Production equipment, trains and ships	10
Furniture, electronic equipment and other transportation equipment	5

Intangible assets, including technical know-how, patents and trademarks, are amortized over the contractual term or over 10 years if a time period is not specified.

### *Restrictions on Interest Deductions*

Reasonable interest payments on loans are deductible after examination by the local tax bureau. However, no deduction is allowed for shareholders' loans if the registered capital pledged by the parties is not fully paid-up.

The following debt-to-equity ratios apply for FIEs in the PRC:

- For investment projects less than US\$3 million, the capital contribution must equal or exceed 70% of the total investment;
- For investment projects from US\$3 million to US\$10 million, the minimum capital requirement is 50% of the total investment, but not less than US\$2.1 million;

- For investment projects from US\$10 million to US\$30 million, the minimum capital requirement is 40% of the total investment, but not less than US\$5 million; and
- For investment projects in excess of US\$30 million, the minimum capital requirement is 33.3% of the total investment, but not less than US\$12 million.

### ***Foreign Exchange Gains and Losses***

Exchange gains or losses incurred due to differences in exchange rates are reflected in the profit-and-loss account in the period during which the exchange difference arises.

On obtaining approval from the local tax bureau, taxpayers may charge or credit differences from revaluation, such as differences between year-end rates and book rates, to a foreign-currency translation account and may amortize them over a period from one to five years.

Exchange gains or losses are generally taxable or deductible when realized.

### ***Relief for Losses***

Tax losses may be carried forward for up to five years. Carrybacks are not allowed.

### ***Related Companies***

#### ***Transfer Pricing***

The PRC tax law includes rules on transfer pricing. Under these rules, all fees paid or charged in business transactions between related parties must be determined according to an arm's length standard. If the parties fail to meet this requirement, the tax bureau may make reasonable adjustments by using one of the following methods:

- Comparable uncontrolled price;
- Reasonable profit margin;
- Cost-plus formula with a reasonable markup; or
- Other methods deemed appropriate by the tax authorities.

For purposes of the transfer pricing rules, parties are related through direct or indirect ownership, common control by a third party or a relationship with a common interest. Intercompany transactions covered by the transfer pricing rules include sales or purchases of goods, technology transfers, provision of services, financing transactions and other business transactions.

#### ***Consolidated Returns***

In general, consolidated returns are not permitted. All companies must file separate tax returns. However, FIEs and FEs may adopt consolidated filing for units operating in different areas of China. To calculate their tax liability, these enterprises must apply the relevant tax rate for the location of each operating unit. Losses in one location may offset income in another location.

## C.6 Other Significant Taxes

The following table summarizes other significant taxes in China.

<i>Nature of Tax</i>	<i>Rate (%)</i>
Value-added tax (VAT)	
Standard rate	17
Rate on specified products (primarily basic necessities), agricultural products and utility services	13
Exports	0 (a)
Consumption tax (on the production and importation of certain luxury items, including cigarettes, gasoline, alcoholic beverages, jewelry, cosmetics and motor vehicles)	Various
Business tax (b)	
General rates	3 to 5
Finance and insurance businesses	5 (c)
Entertainment establishments	5 to 20
Transfers of intangible and immovable properties	5 (d)
Real property gains tax, on real property transfers	30 to 60

- (a) Exports are generally zero-rated. Any VAT previously paid on the purchase of raw materials, parts and taxable services that have been used in the production of export goods is refunded. Under the original VAT regulation, the rate of this refund was 17%. However, under a tax notice issued by the State Administration of Taxation, the rate of the refund may be reduced to 5%, 13% or 15%, depending on the type of goods exported.
- (b) Business tax is imposed on various types of services and income not derived from production, including transportation, construction, finance, insurance, postal services, telecommunications, cultural and sporting events, entertainment establishments, hotels and restaurants, rentals, advertising, tourism and the transfer of intangible and immovable properties.
- (c) This rate is effective from 1 January 2003.
- (d) Under a tax bureau notice, transfers of intangible properties include transfers of rights to use intangible properties in the PRC. A tax bureau notice apparently indicates that royalties received by foreign companies from licensing intangible properties to the PRC are subject to business tax. Under a tax notice issued on 16 March 2001, transfers of technology may be exempt from business tax if approval is obtained from the PRC tax authorities.

## C.7 Miscellaneous Tax Matters

### *Mergers*

For a merger of two companies, including both acquisition and dissolution mergers, no gain or loss is recognized for PRC tax purposes. As a result of the transaction, all existing tax attributes of the old company, including unused tax losses, are carried forward to the new company. The new company does not obtain a step-up in basis of the underlying assets and liabilities. If both of the entities are benefiting from different tax holiday periods, the combined entity will continue to enjoy the available tax holidays separately using a divisional accounting method.

The transfer of land and buildings owned by the old company is technically considered a sale, which requires the parties to complete change of ownership formalities with the Local State Land Bureau. The transfer may be subject to business tax at a rate of 5%, deed tax at a rate of 3% to 5%, and stamp duty at a rate of 0.05%, which is payable by both parties and assessed on the value of the land and buildings transferred.

### ***Reorganizations***

On the disposal of an interest in a FIE, which is an entity with foreign investment of not less than 25% of the registered capital, any gain derived by the foreign investor is subject to PRC withholding tax at a rate of 10%.

The gain or loss generated from the transfer of a FIE investment is calculated in the following manner:

$$\text{Gain / Loss} = \text{Transfer Price} - \text{Cost}$$

The transfer price refers to the amount received by the transferor, including cash, nonmonetary assets, and rights and interests of other forms of payment. If the enterprise to which the shares are transferred has undistributed profits and reserves as of the date of the transfer, the amount may be deducted from the transfer price in calculating the gain or loss of the transferor. The cost refers to the total or original capital invested, plus any additional contributions made as certified in the capital verification reports issued by a Chinese CPA confirming the date, amounts and types of capital contributions made.

In a group reorganization, if a foreign investor transfers an investment interest in a FIE to another company in its group that is either directly or indirectly 100% owned by the same foreign investor, or commonly 100% owned by the same foreign parent company, the transfer of investment may be made at cost, that is, no gain or loss is recognized. Accordingly, in this situation, PRC withholding tax does not apply.

The transfer of an investment interest in a FIE is generally exempt from business tax. If one or more of the investors in a FIE contributes capital to the FIE in the form of real property or intangible assets, business tax at a rate of 5% is imposed on the gross value of the transfer for intangible assets, or net value of the transfer for real property. The transfer of shareholders' interests are subject to stamp duty at a rate of 0.05% on the value of the transfer, payable by both the seller and buyer, for a total rate of 0.1%.

Regardless of the tax treatment described above, any transfer of investment in a FIE must receive prior PRC government approval, unless the transfer is completed offshore between two foreign companies and does not involve the change of a registered investor in the FIE.

## **C.8 Financial Reporting and Auditing**

All enterprises must maintain books or accounts for their business activities. At the end of each business year, an enterprise must submit its annual financial report to its shareholders' meeting for approval or ratification. The annual financial report, which must be prepared using PRC accounting rules, includes a balance sheet, profit and loss account, cash flow statement, statement of profit appropriation, notes to the financial statements, supplementary statements and management's commentary on the entity's financial performance.

Enterprises are expected to prepare and present external financial reports with true and fair views. In accordance with the relevant laws and regulations, enterprises must have their financial statements audited and certified by a CPA at the end of each financial year.

### ***Method of Accounting***

Enterprises must use double-entry bookkeeping and record transactions using the accrual method of accounting. Enterprises carrying out accounting activities, such as preparing accounting vouchers, recording accounting books and managing accounting records, must comply with the provisions contained in the Accounting Law of the PRC, the Basic Standards in Accounting Practice and the Management of Accounting Records. Management is responsible for exercising its judgment and making proper provisions. Enterprises must apply their adopted accounting practices and policies consistently from one period to another and may not change such practices and policies arbitrarily.

Enterprises must maintain their accounting records in renminbi. If an enterprise's operating income and expenses are primarily denominated in currencies other than renminbi, the enterprise may choose any one of the currencies as its book currency. However, the enterprise's financial statements must be translated into renminbi.

### ***Sources of Accounting Standards***

FIEs and joint stock companies must prepare their financial statements in accordance with PRC accounting standards and the Accounting System for Business Enterprises (accounting system). The MOF issues the accounting standards and accounting system, which apply to various industries and sectors.

### ***Fundamental Concepts***

In general, PRC accounting principles conform to IAS. In the last few years, the Chinese government has eliminated most of the differences between PRC accounting practices and IAS. China has adopted the IAS fundamental accounting concepts such as going concern, consistency, accrual, and matching of revenue and costs.

The basic accounting concepts include the characteristics of objectivity, relevance, comparability and reliability, which must be reflected in the accounting statements. In addition, the accounting principles of going concern, consistency, timeliness, accruals, prudence, matching, substance over form and materiality must be applied in preparing financial statements.

### ***Significant Accounting Rules***

Accounting records and reports must be prepared in accordance with PRC accounting regulations and based on proper documentation. Significant accounting rules that apply to FIEs and joint stock companies in China are described below. The introduction of the Accounting System for Business Enterprises in 2001 and 2002 significantly changed these rules.

#### *Recognition of Revenue*

Revenue from the sale of goods is recognized when all of the following conditions have been satisfied:

- The enterprise has transferred the significant risks and rewards of ownership of the goods to the buyer;
- The enterprise retains neither continuing management rights that are usually associated with ownership nor effective control over the goods sold;
- It is probable that the economic benefits associated with the transaction will flow to the enterprise; and
- The revenue and costs relating to the transaction can be measured reliably.

For revenue from services, if the services rendered are commenced and completed within the same accounting year, the revenue is recognized when the services are completed. If the commencement and completion of services rendered occur in different accounting years, the enterprise recognizes revenue using the percentage of completion method as of the balance sheet date if the outcome of the transaction involving the rendering of services can be estimated reliably. The percentage of completion method refers to the recognition of revenue and related expenses based on the percentage of completion of a transaction.

#### *Pretax Profits*

Profits before taxes equal operating income plus investment income, subsidy income and nonoperating income, less nonoperating expenses. Nonoperating income and nonoperating expenses refer to the income earned and expenses incurred by an enterprise that have no direct connection to its operating activities. Examples include gains on disposal of a fixed asset, net income from penalties, losses from a fixed asset physical count, provisions recorded for impairment of a fixed asset and donations.

#### *Fixed Assets*

Fixed assets must be recorded at their cost when acquired. Cost includes the purchase price, customs duty, transportation and insurance expenses, and necessary expenses to be incurred before the fixed asset is ready for its intended use.

The cost of a fixed asset under a finance lease is the lower of the book value of the asset at the beginning of the lease period and the present value of total minimum lease payments. If the value of the finance-leased assets constitutes 30% or less of the value of the total assets, the enterprise may record the leased assets as fixed assets based on the minimum lease payments at the beginning of the lease term.

### *Long-Term Investments*

Long-term investments are stated at the actual cash amount paid or the cost of the tangible/intangible assets contributed, as agreed in the investment contracts. An enterprise must review the value of its long-term investments periodically and value the investments at the lower of cost and the recoverable amount. If the recoverable amount is less than cost, a provision for diminution must be made for the difference.

### *Investments in Other Enterprises*

If an investing enterprise has control, joint control or significant influence over an investee enterprise, the equity method must be used to account for the long-term equity investment. In general, if the investing enterprise controls 20% or more of the voting rights of the investee enterprise, or has significant influence over the investee enterprise even though it holds less than 20% of the investee's voting rights, the equity method must be used to account for the long-term equity investment. If the investing enterprise controls less than 20% of the voting rights of the investee enterprise, or has no significant influence over the investee enterprise even though it controls more than 20% of the voting rights of the investee, the cost method is used to account for the long-term investments.

### *Bad Debts*

Enterprises must set aside sufficient provisions for bad debts.

Losses on bad debts are recognized when a debtor becomes bankrupt or dies and the bankrupt assets or legacy are insufficient for liquidation, or if a debtor has not settled its account for more than three years.

### *Inventory Provisions*

At the end of each accounting period, inventory held by an enterprise must be valued at the lower of cost and net realizable value (NRV). If the NRV is less than cost, a NRV provision must be made for the difference. The condition of the inventory, such as whether the inventory is obsolete, damaged or slow moving, must be considered to determine the NRV provision.

### *Depreciation*

Based on the nature and utilization method of fixed assets, an enterprise must determine a reasonable expected useful life and expected residual value for each asset, and select a reasonable depreciation method after considering technological development, environmental, and other factors. Depreciation may be calculated

using the straight-line method, operation capacity method, sum-of-years' digits method and double-rate declining balance method. An enterprise's applicable management body, such as a meeting of the shareholders, board of directors or managers must approve the depreciation policy and submit and file the policy with the relevant parties as stipulated by the law or administrative regulations. An approved policy may not be changed arbitrarily thereafter. If a change in the policy is necessary, the enterprise must seek the appropriate body's approval, submit and file the changes with the relevant parties, and disclose the change in the notes to the financial statements.

#### *Intangible Assets*

Identifiable intangible assets, including patents, nonexclusive technologies, trademarks, copyrights and land use rights must be recorded at cost when acquired. The actual cost of an internally developed intangible asset that has completed the appropriate legal application procedures includes the registration fee incurred during the application process, attorney's fees and related expenses. The cost of materials consumed, payroll and welfare expenses relating to personnel directly engaged in the research and development process, and rental and borrowing costs incurred during the development process are recorded as expenses when incurred.

The cost of an intangible asset is amortized evenly over the shorter of its estimated useful life, contract term or period stipulated by legal regulations. If the contract or legal regulations do not specify a period, the amortization period may not exceed 10 years.

#### *Preoperating Expenses*

Except for the purchase or construction of fixed assets, all expenses incurred during the start-up period are accumulated as long-term deferred expenses. The entire amount is then charged to the profit and loss account in the month that the enterprise commences production or operations.

#### *Sales Returns, Discounts and Allowances*

Cash discounts are recognized as expenses when incurred. Sales rebates and discounts offset current period revenue when they occur. If an enterprise has already recognized the revenue relating to a sales return, the sales return offsets revenue in the period that the return occurred.

#### *Foreign Currency Transactions*

When an enterprise enters into a foreign currency transaction, the enterprise translates the foreign currency amounts into corresponding book currency amounts, using either the exchange rates on the transaction date or the exchange rates at the beginning of each period.

The balances of various foreign currency accounts are translated into the book currency at the closing exchange rates at the end of each period. The exchange differences are charged to the profit and loss account as exchange gain or loss.

Exchange differences arising during the preoperating period must be recorded as long-term deferred expenses. Exchange differences arising from borrowings used to construct or build fixed assets must be accounted for in accordance with regulations governing the accounting treatment for capitalized borrowing costs.

### *Liquidations*

The rules regarding liquidations govern the contents of liquidation expenditure, recognition of liquidation profit and loss, and the preparation and submission of financial statements during the liquidation period.

### ***Disclosure, Reporting and Filing Requirements***

An enterprise must include the following items in its financial statements:

- Balance sheet;
- Income statement;
- Cash flow statement;
- Statement of profit appropriation; and
- Notes to the financial statements, supplementary statements and management's commentary on the entity's financial performance.

Certain statements are prepared monthly, while others are prepared quarterly or on a semiannual or annual basis. The Accounting System for Business Enterprises regulates the contents of the financial reports, types and forms of the financial statements, and details of the notes to the financial statements. An enterprise may decide on the format of financial statements that are used for internal purposes.

The notes to the financial statements must contain the following disclosures:

- Explanation of noncompliance with any accounting concepts or standards;
- Details of significant accounting policies and estimates;
- Explanation of changes in significant accounting policies and estimates;
- Details of contingencies and post-balance sheet events;
- Disclosure of related party relationships and transactions;
- Details of transfers or disposals of assets;
- Details of business combinations and divisions;
- Details of significant items in the accounting statements, such as receivables, inventories and fixed assets; and
- Other disclosures that may help the reader understand the accounting statements.

The management's commentary on the entity's financial performance explains the following information about an enterprise:

- Profile of the business operation;
- Profits realized and distributed;
- Increase or decrease of the capital funds and their turnovers; and
- Details of any events with significant impact on the enterprise's financial positions, operation results and cash flows.

At the end of each business year, a company must submit its financial statements to the shareholders' meeting for approval or ratification. Except for the first year of operation, annual financial statements must include comparative figures for two consecutive accounting years or two related accounting periods.

An accounting year generally is the calendar year. A FIE does not adopt the same accounting year as its parent company if the parent company's accounting year does not end on 31 December.

An enterprise's filing requirements are described in the following table.

<i>Report</i>	<i>Must be published within</i>
Monthly	6 days after the end of the month
Quarterly	15 days after the end of the quarter
Semi-annual	60 days after the end of the period
Annual	4 months after the end of the year



## **D. Individuals**

### **D.1 Income Tax**

#### *Who Is Liable*

In accordance with the PRC Individual Income Tax (IIT) Law adopted by China's NPC in 1993, individual income tax is imposed on all individuals, including both PRC and foreign nationals residing in or deriving income from the PRC.

#### *Territoriality*

PRC residents are generally subject to tax on their worldwide income. Non-residents are subject to tax on their PRC-source income only.

#### *Definition of Resident*

PRC residents include the following persons:

- Individuals who maintain a permanent home in the PRC; and
- Individuals who do not maintain a permanent home in the PRC, but reside in the PRC for one year or longer.

Individuals are considered to have resided in the PRC for one year if they reside in the PRC for 365 days during one calendar year. In calculating the number of days an individual is present in the PRC, temporary absences from the PRC may not be excluded. A temporary absence is defined as a single absence from the PRC for a period of no longer than 30 days, or as multiple absences from the PRC for an aggregate of no longer than 90 days.

Individuals who are considered one to five-year tax residents are subject to PRC individual income tax on income earned in the PRC and on foreign income remitted to the PRC during the period of residency.

Individuals who maintain a permanent home in the PRC and those residing in the PRC for five years or longer are subject to PRC individual income tax on worldwide income, regardless of whether the income is remitted to the PRC.

#### *Income Subject to Tax*

##### *Employment Income*

The IIT law imposes tax on employment compensation, which includes wages and salaries, foreign service or hardship allowances, cost of living and automobile allowances, tax reimbursement and bonuses. Nontaxable compensation includes employer-provided housing, paid home leave, relocation or moving costs, and paid local transportation. Other employee expenses such as meals and laundry are taxable if paid in a lump sum as allowances and nontaxable if reimbursed on presentation of receipts.

##### *Self-Employment Income*

Taxable income includes compensation for independent personal services performed in the PRC, bonus payments and income specified as taxable by the MOF.

### *Investment Income*

Interest, dividends and other investment income from PRC sources are subject to tax at a flat rate of 20%, with no deductions allowed. However, dividends and bonuses paid on “B” shares (shares issued for sale to foreign investors) and on “H” shares (shares of PRC enterprises listed on foreign stock exchanges) issued by enterprises in the PRC are tax-exempt.

Effective from 1 January 2000, dividends, interest, royalties and rental income received by nonresident foreign nationals from PRC sources are normally subject to withholding tax at a rate of 10% in accordance with the PRC individual income tax regulations. An individual is not required to file a tax return if the income is subject to withholding tax.

Dividends paid by a FIE in the PRC are exempt from withholding tax.

### *Directors’ Fees*

Directors’ fees, excluding expense reimbursements received by foreign nationals from PRC sources, are considered income from independent personal services. Fees of directors not normally resident in the PRC are taxable as lump sums. The tax liability is computed by applying the rules outlined for income from independent personal services (see *Self-Employment Income*, page 53).

### *Exempt Income*

The following types of income are exempt from tax:

- Prizes and awards for scientific, technological or cultural achievements;
- Interest on savings deposits with state banks and credit cooperatives in the PRC;
- Welfare benefits, pensions and relief payments;
- Severance or retirement pay;
- Salaries of diplomatic officials of foreign embassies and consulates in the PRC;
- Tax-free income as stipulated in agreements to which the PRC is a party; and
- Other income that the MOF designates as tax-exempt.

### *Redundancy Payments*

A lump-sum redundancy payment resulting from the termination of an employment contract includes compensation, cost of living allowances and other allowances. A redundancy payment is exempt from individual income tax if the amount is less than three times the average salary of the local staff in the preceding year. Any payment exceeding this amount is subject to individual income tax, which must be paid to the relevant tax bureau within seven days after the end of the taxable month.

A lump-sum payment may be averaged over an employee’s number of service years, subject to a maximum of 12 years. The quotient is deemed to be the monthly amount of salary and bonus. The individual income tax is then computed in accordance with the statutory tax laws and regulations.

Actual payments for housing accommodation, medical insurance, basic endowment insurance, and to an unemployment fund related to the redundancy payment are deductible when computing the individual income tax liability of the lump-sum compensation.

If the terminated employee finds new employment, the individual's salary and bonus related to the newly signed contract will not be combined with the lump sum compensation that has already been subject to tax.

Lump sum redundancy payments received from enterprises that were in liquidation are exempt from individual income tax.

***Taxation of Employer-Provided Stock Options***

Taxable income is recognized on the date an employee exercises an employer-provided stock option. For foreign nationals, stock option income is taxable if it is considered attributable to PRC employment. No clear rules categorize stock option income, but in general, a stock option that is granted and vested when the employee is resident in the PRC is considered to be PRC-source taxable income. If the expense is charged back to the PRC office, then taxable income is recognized on the earlier of the date of exercise or the date of charge back.

The amount of taxable income is the difference between the fair market value of the stock and the exercise price. The taxable income is reported in the month of exercise as part of an employee's compensation and is subject to progressive tax rates that range from 5% to 45% (see *Rates*, page 57). With the approval of the PRC authorities, the taxable income may be included in an individual's monthly taxable income by averaging it over a period of not more than six months.

***Capital Gains***

After deducting costs and related expenses, income derived from the sale or transfer of movable or immovable property in the PRC is taxed at a flat rate of 20%.

Income derived from transfers of real property is also subject to real property gains tax, which is levied at the following progressive rates.

<i>Gains in Excess of Cost Basis</i>	<i>Rate (%)</i>
Less than 50%	30
50% to 100%	40
100% to 200%	50
More than 200%	60

Capital gains derived from transfers of "B" and "H" shares (see *Investment Income*, page 54) are exempt from tax.

Foreign individuals who do not have other income subject to PRC individual income tax are subject to withholding tax at a rate of 20% on gains derived from the sale of equity in a FIE in the PRC.

The applicable tax rate may be reduced for individuals resident in treaty countries. In addition, the withholding tax rate is reduced to 10% for income derived from FIEs located in areas where preferential tax policies apply under domestic law.

## ***Deductions***

### *Deductible Expenses*

An individual is allowed a flat deduction of RMB 800 each month to compute net taxable income. Expatriate employees are allowed an additional deduction of RMB 3,200 per month. For U.S. expatriates, social security contributions are not deductible. Approved charitable donations are also deductible.

If an employer is responsible for paying an employee's PRC income tax liabilities, the employee's taxable income is grossed up by the amount of the payment. Any hypothetical tax, which is an amount withheld by the employer as full or partial compensation for satisfying the employee's PRC tax liability, is allowed as a deduction in computing the employee's net taxable income.

### *Personal Deductions and Allowances*

Employees who do not have a permanent residence in the PRC and who have job responsibilities both within and outside the PRC may allocate their income between sources in proportion to the services provided. For example, if an employee works 50% of the time in the PRC, 50% of his or her salary is taxable in the PRC. To qualify for this tax treatment, an employee must have the approval of the local tax bureau and must provide supporting documentation for the apportionment.

Employees who are not stationed full time in the PRC and who have two distinct functions, one within the PRC and one outside the PRC, may qualify for a dual contract arrangement if all of the following criteria are satisfied:

- The employment contracts for the two job functions must be signed with different companies. The PRC tax authorities do not accept separate employment contracts with the same company for this purpose.
- Separate responsibilities are identified for each job function.
- The salary expense of the non-PRC assignment is not borne by the PRC company.
- The employee performs the non-PRC duties while physically located outside the PRC.
- The employment income is divided on a reasonable basis between the PRC and non-PRC contracts, for example, on a time basis.
- The employee spends less than one year in the PRC.

No distinction is made between married and single taxpayers. In addition, no relief by allowance or deduction is provided for dependents.



### ***Relief for Losses***

No provisions exist for the carryover of losses.

### ***Nonresidents***

Individuals who do not maintain a permanent place of abode in the PRC and who work in the PRC fewer than 365 days in a calendar year are considered nonresidents and are subject to individual income tax under different rules, as described below.

#### ***Resident for 90 Days or Less***

Individuals who reside in the PRC continuously or intermittently for not more than 90 days during a calendar year are treated in the following manner:

- The expatriate is exempt from individual income tax if the salary is paid and borne by an overseas employer.
- Employment income paid or borne by the employer's establishment in the PRC is subject to individual income tax to the extent that the income is attributable to services actually performed in the PRC. Normally, the tax liabilities are apportioned into PRC and non-PRC services in accordance with the actual number of days the expatriate resides in the PRC. An establishment for these purposes includes a representative office and the site of a contract project in the PRC.
- The residency threshold is increased from 90 days to 183 days if the expatriate is resident, during the relevant calendar year, in a country that has concluded a double tax treaty with the PRC (tax treaty expatriate).

#### ***Residents for 90 to 364 Days***

Individuals who reside in the PRC for more than 90 days (183 days for tax treaty expatriates), but less than one year, are treated in the following manner:

- The expatriate is subject to individual income tax on employment income derived from services actually performed in the PRC.
- Assessable income includes all employment income, whether it is paid or borne by an employer inside or outside the PRC.
- Employment income attributable to services performed outside the PRC is exempt from individual income tax.

#### ***Directors and Managers***

If an expatriate is a director, general manager or deputy general manager of an enterprise registered in the PRC, all employment income paid or borne by the PRC enterprise is subject to individual income tax, whether the relevant services are performed inside or outside the PRC.

Income paid by an employer outside the PRC to these individuals is taxed in one of the following ways:

- The income is exempt from individual income tax if the individual resides in the PRC for not more than 90 days (or 183 days for tax treaty expatriates) during a calendar year; or

- The income is subject to individual income tax if the period of residency extends to more than 90 days (or 183 days for tax treaty expatriates) to the extent that the income is attributable to services performed in the PRC.

## **D.2 Other Taxes**

### ***Net Worth Tax***

The PRC does not levy net worth tax.

### ***Estate and Gift Taxes***

The PRC does not levy estate and gift taxes.

### ***Real Estate Tax***

Owners of land or buildings in urban areas are subject to real estate tax. The tax is imposed on either the value of the property or rental income received from a lessee.

### ***Vehicle and Vessel License Tax***

Vehicle and vessel license tax is a local tax levy that applies to vehicles and certain types of vessels owned by individuals or enterprises in China.

## **D.3 Social Security**

PRC nationals are subject to social security taxes at an average rate of 50% of gross income. The PRC does not levy social security taxes on foreign nationals working in China.

## **D.4 Tax Filing and Payment Procedures**

The tax year for individuals is the calendar year. Spouses are taxed separately, not jointly, on all types of income.

All individuals must register with the local tax bureau or, for individuals engaged in offshore oil and gas exploration activities, with the local offshore oil tax bureau. Individuals subject to PRC individual income tax must complete a tax registration form and provide an employer's certification stating the amount of their compensation, along with copies of relevant passport pages to verify their dates of arrival.

Although the recipient of income is responsible for the payment of income tax, tax is generally collected through a withholding system under which the payer is the withholding agent. All taxpayers, including those earning PRC-source income but not covered by the withholding system, and employees who are paid outside the PRC, must file monthly income tax returns and pay the relevant tax to the local tax bureau. The returns must be filed within seven days after the end of the month.

Taxpayers with foreign-source income must file income tax returns and pay taxes due within 30 days after the end of the calendar year. Foreign taxes paid on this income are allowed as a tax credit, up to the amount of the PRC individual income tax levied on the same income.

Individuals departing from the PRC must pay all taxes within seven days prior to their departure and complete the relevant “deregistration” formality with the local tax authorities.

Late payments of tax are subject to a daily interest charge of 0.2% for the period before 1 May and 0.05% for the period thereafter. A penalty of up to five times the amount of unpaid tax may be levied for tax evasion or a refusal to pay tax.

### **D.5 Double Tax Relief and Tax Treaties**

An individual subject to PRC individual income tax on worldwide income may claim a foreign tax credit against income subject to tax in another country. The credit is limited to the PRC tax payable on the same income.

The PRC has entered into double tax treaties with many other countries. For a list of China’s double taxation treaties, see Appendix 7, page 75.

Under the treaties, remuneration derived from employment in the PRC is generally exempt from PRC individual income tax if all of the following conditions are met:

- The recipient is present in the PRC for a period or periods not exceeding 183 days in the calendar year;
- The remuneration is paid by, or on behalf of, an employer that is not resident in the PRC; and
- The remuneration is not borne by a permanent establishment or a fixed base maintained by the employer in the PRC.

Under many of the treaties, income derived from independent professional services or other independent services is exempt from PRC individual income tax if the recipient meets both of the following conditions:

- The recipient does not have a fixed base regularly available to him or her in the PRC for the purpose of performing the services.
- The recipient is present in the PRC for a period or periods not exceeding 183 days in the relevant calendar year.

On 11 February 1998, Hong Kong and the PRC signed a memorandum regarding the avoidance of double taxation of income. The arrangement is in effect for all income derived in the PRC after 1 July 1998 and in Hong Kong after 1 April 1998. Under the arrangement, after 1 July 1998, a Hong Kong resident who spends fewer than 183 days in the PRC during a calendar year is exempt from PRC individual income tax if the income is not borne by or charged back to a PRC-registered entity and if the resident does not hold an official title in a PRC-registered entity.

## **D.6 Visas**

All foreign nationals must obtain permission from the relevant Chinese authorities to enter, leave, pass through or reside in China. The relevant authorities include 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.
- F—Issued to a person who has been invited to visit China for no longer than six months for business, seminars and fact-finding purposes; for scientific, technical or cultural exchanges; for short-term continuing education or practical training; or for any other such activities.
- G—Issued to a person who passes through China in transit.
- X—Issued to a person who enters China for study, further education or practical training for six months or longer.
- Z—Issued to a person who enters China to take up employment and to that person's accompanying family.

The only requirements for a foreign national to be self-employed in China are a valid work permit and a residence permit. No minimum amount of capital investment is required for self-employment.

## **D.7 Visa Applications**

Foreign nationals wishing 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. Under the following special circumstances, an application for a visa may be made at any designated entry point authorized by the Ministry of Public Security:

- The foreign person is invited, because of a late confirmation on the part of the Chinese party, to attend a trade fair in China.
- The foreign national is invited to submit a bid or to formally sign an economic or trade contract.
- The foreign national, pursuant to an agreement, visits China to conduct inspections of import or export products or for contract verification and acceptance.
- The foreign national is invited to perform equipment installation or to undertake emergency repairs.
- The foreign national is requested by a Chinese party to come to China for a settlement of claims.

- The foreign national is invited to visit China to provide scientific and technical consulting services.
- The foreign national is an additional or substitute member of a group that has already been issued visas.
- The foreign national comes to China to visit a seriously ill person or to arrange funeral matters.
- The foreign national is in direct transit but, for unavoidable reasons, cannot leave China within 24 hours.
- The foreign national is invited to China but is unable to apply in time to the aforementioned Chinese organizations abroad, and he or she holds a document issued by the designated authorities indicating he or she is approved to apply for a visa at the port of entry.

The following documents must be submitted to apply for a visa:

- A valid passport or an equivalent certificate of identification.
- A completed visa application form with two recent passport-size photographs.
- Other relevant documents relating to the entry or transit application, which vary according to the type of visa the foreign national is applying for:
  - D—A residence confirmation form, which should be applied for by the applicant or an entrusted relative in China at the entry-exit control department of the municipal or county police security bureau where the applicant intends to reside.
  - F—An invitation extended by an authorized unit.
  - G—A valid visa for the country (region) to which the applicant intends to travel next or, in the absence of such a visa, an onward ticket.
  - X—A certificate issued by the receiving unit or the relevant department in charge.
  - Z—An employment approval certificate and employment visa letter issued by an authorized unit.

### **D.8 Residence Permits**

Foreign nationals may obtain residence permits valid for one to five years. A permit may be renewed for an unspecified number of times. A renewed permit is normally valid for one year.

When applying for an entry visa, if a foreign national intends to take up permanent residence or stay in China for one year or more, he or she must present a notarized health certificate issued by a health and medical unit designated by the government of the foreign national's home country, or issued by any health and medical unit. The health certificate must remain valid for six months from the date of issue.

## **D.9 Family and Personal Considerations**

### ***Family Members***

Family members of a working expatriate do not automatically receive the same type of work visa as the expatriate and must apply independently for visas. These applications may be completed when the expatriate applies for a work permit.

Subject to the decision of the local government, 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 the PRC.

### ***Forced Heirship***

Forced heirship rules do not apply in the PRC.

### ***Drivers' Permits***

China does not have driver's license reciprocity with any country. Foreign nationals may not drive legally in China with their home country drivers' licenses, but they may take written exams and exchange their licenses for Chinese licenses.



## **Glossary of Acronyms**

The following is a partial list of acronyms used in this book.

CCP — Chinese Communist Party

CCPIT — China Council for the Promotion of International Trade

CHC — Chinese holding company

CJV — Cooperative or contractual joint venture

COE — Collective enterprise

CPA — Certified public accountant

CSRC — China Securities Regulatory Commission

DIECA — Department of International Electronic Commerce Administration

EJV — Equity joint venture

ETF — Enforcement task force

FE — Foreign enterprise

FIE — Foreign investment enterprise

FMC — Fund management company

GDP — Gross domestic product

GMT — Greenwich Mean Time

IAS — International Accounting Standards

IIT Law — Individual Income Tax Law

IPR — Intellectual property right

ITA — Information Technology Agreement

MII — Ministry of Information Industry

MOC — Ministry of Commerce

MOF — Ministry of Finance

NPC — National People's Congress

PBOC — People's Bank of China

PRC — People's Republic of China

RMB — Renminbi

SAFE — State Administration of Foreign Exchange Control

SAIC — State Administration for Industry and Commerce

SAR — Special Administrative Region

SEZ — Special Economic Zone

SHSE — Shanghai Stock Exchange

SOE — State-owned enterprise

SZSE — Shenzhen Stock Exchange

TRIPs Agreement — WTO Trade-Related Aspects of Intellectual Property  
Rights Agreement

UN — United Nations

VAT — Value-added tax

WFOE — Wholly foreign-owned enterprise

WTO — World Trade Organization

# Appendices

## Appendix 1: Useful Addresses and Telephone Numbers

When telephoning from an international location, the caller should use the international country code for China, 86, as a prefix. Unless otherwise noted, the following addresses are located in Beijing (direct dialing code 10).

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### Government Ministries

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China Council for Promotion of International Trade (CCPIT)	No. 1 Fuxingmenwai Street 100860 Telephone: 6801 3344 Facsimile: 6803 0747 Website: <a href="http://www.ccpit.org">www.ccpit.org</a>
Foreign Enterprises Service Corporation of Beijing (FESCO)	14 Chaoyangmen Nandajie Chaoyang District, 100020 Telephone: 6501 6677 Facsimile: 6594 6062 Website: <a href="http://www.fesco.com.cn">www.fesco.com.cn</a>
General Administration of Customs	Building East 6 Jianguomennei Dajie, 100730 Telephone: 6519 4114 Website: <a href="http://www.customs.gov.cn">www.customs.gov.cn</a>
Ministry of Finance (MOF)	3 Nansanxiang, Sanlihe Xichengqu, 100820 Telephone: 6855 1118 Website: <a href="http://www.mof.gov.cn">www.mof.gov.cn</a>
Ministry of Foreign Affairs	2 Chaoyangmen Nandajie Dongcheng District, 100701 Telephone: 6596 1114 Website: <a href="http://www.fmprc.gov.cn">www.fmprc.gov.cn</a>
Ministry of Information Industry (MII)	13 Xichang Nanjie 100804 Telephone: 6601 4249 Website: <a href="http://www.mii.gov.cn">www.mii.gov.cn</a>

Ministry of Justice	10 Chaoyangmen Nandajie Chaoyang Qu, 100020 Telephone: 6520 5114 Website: www.moj.gov.cn
Ministry of Labor and Social Security	12 Hepingli Zhongjie Dongcheng District, 100716 Telephone: 8420 1114 Website: www.molss.gov.cn
National Audit Office	1 Beiluyuan, Zhanlannanlu Xicheng District, 100830 Telephone: 6830 1114 Website: www.audit.gov.cn
National Bureau of Statistics	75 Yuetan Nanjie, Shalihe Xicheng District, 100826 Telephone: 6711 2233 Facsimile: 6858 0964 Website: www.stats.gov.cn
People's Bank of China (PBOC)	32 Chengfangjie Xicheng District, 100800 Telephone: 6601 5378 Website: www.pbc.gov.cn
State Administration of Foreign Exchange (SAFE)	Huarong Mansion, 18 Fuchenglu Haidian District, 100037 Telephone: 6840 2255 Website: www.safe.gov.cn
State Administration for Industry and Commerce (SAIC)	8 Sanlihe, Donglu Western District, 100820 Telephone: 6803 2233 Facsimile: 6805 7994 Website: www.saic.gov.cn
State Administration of Taxation	5 Yangfangdian West Road Haidian District, 100038 Telephone: 6341 7114 Website: www.chinatax.gov.cn

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State Development Planning Commission	38 Yuetannanjie Xicheng District, 100824 Telephone: 6850 1240 Website: www.sdpc.gov.cn
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State Economic and Trade Commission	26 Xuanwumen Xidajie Xuanwu District, 100053 Telephone: 6319 2114 Website: www.setc.gov.cn
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State Intellectual Property Office of the People's Republic of China	No. 6 Xitucheng Road Haidian District, 100088 Telephone: 6209 3334 Website: www.sipo.gov.cn
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Xinhua News Agency	57 West Street Xuanwumen, 100803 Telephone: 6307 1114 Website: www.xinhuanet.com
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### **Private Organizations**

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American Chamber of Commerce (Beijing)	China Resources Building, #1903 8 Jianguomenbei Dajie, 100005 Telephone: 8519-1920 Facsimile: 8519-1910 Website: www.amcham-china.org.cn
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Chinese Institute of Certified Public Accountants (Beijing)	21 Sanlihe Haidian District, 100037 Telephone: 8639 2929 Website: www.cicpa.org.cn
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**Appendix 2: China's Provinces, Autonomous Regions, Municipalities and Special Administrative Regions**

For administrative purposes, China is separated into 23 provinces, 5 autonomous regions, 4 directly administered municipalities and 2 special administrative regions.

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***Provinces***

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Anhui	Hebei	Jiangxi	Shandong
Fujian	Heilongjiang	Jilin	Sichuan
Gansu	Henan	Liaoning	Taiwan
Guangdong	Hubei	Qinghai	Yunnan
Guizhou	Hunan	Sha'anxi	Zhejiang
Hainan	Jiangsu	Shanxi	

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***Autonomous Regions***

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- Guangxi
- Neimengu
- Ningxia
- Xinjiang
- Tibet (Xizang)

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***Municipalities***

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- Beijing
- Chongqing
- Shanghai
- Tianjin

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***Special Administrative Regions***

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- Hong Kong
- Macau

### **Appendix 3: Economic Indicators**

The following table presents key indicators of China's economic performance for fiscal years from 1998 to 2001.

	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
GNP (RMB billions)	7,697	8,042	8,819	9,435
GNP growth (%)	6.7	4.5	9.7	7.0
Inflation (%)	(0.8)	(1.4)	0.4	0.7
Exports (US\$ billions)	183.8	194.9	249.2	266.2
Imports (US\$ billions)	140.2	165.7	225.1	243.6
Trade balance (US\$ billions)	43.6	29.2	24.1	22.6

Source: Asian Development Bank.

**Appendix 4: Exchange Rates**

The following table presents exchange rates of the renminbi yuan against selected major foreign currencies on 31 December 1999 through 2002.

	<i>RMB per Unit of Foreign Currency</i>			
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Australian dollar	5.39220	4.6350	4.23860	4.68220
Canadian dollar	5.70290	5.52690	5.20980	5.25730
Euro	8.31990	7.79890	7.3420	8.68740
Japanese yen	0.08108	0.07237	0.06320	0.06993
Singapore dollar	4.97920	4.77680	4.47950	4.77750
Swiss franc	5.18430	5.13980	4.95380	5.97740
U.K. pound	13.3936	12.3635	12.0281	13.2958
U.S. dollar	8.28030	8.27820	8.28670	8.28670

## Appendix 5: Leading Exports and Imports

The following tables present China's leading exports and imports in 2001.

<i>Exports</i>	<i>US\$ (millions)</i>
Machines and transport equipment	94,918
Miscellaneous manufactured goods	87,123
Basic manufactured products	43,823
Chemicals	13,354
Food and live animals	12,778
Minerals and fuels	8,416
Crude materials, excluding fuels	4,173
Beverages and tobacco	874
Others	585
Animal and vegetable oils and fats	111

  

<i>Imports</i>	<i>US\$ (millions)</i>
Machines and transport equipment	107,042
Basic manufactured products	41,939
Chemicals	32,106
Crude materials, excluding fuels	22,128
Minerals and fuels	17,495
Miscellaneous manufactured goods	15,076
Food and live animals	4,976
Others	1,677
Animal and vegetable oils and fats	763
Beverages and tobacco	412

Source: Asian Development Bank.

**Appendix 6: Corporate Tax Calculation**

The following is a sample corporate tax calculation for a representative office in Shanghai that has deemed operating revenues of RMB 300,000 in 2002.

	<i>RMB</i>
<hr/>	
<i>Calculation of Business Tax</i>	
RMB 300,000 x 5% rate	15,000
<i>Calculation of Corporate Income Tax</i>	
Taxable Profit	
RMB 300,000 x 10% (deemed profit rate)	30,000
Corporate income tax payable	
RMB 30,000 x 30% rate	9,000
Local income tax payable	
RMB 30,000 x 3% rate	<u>900</u>
Total taxes payable	<u><u>24,900</u></u>

## Appendix 7: Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	<i>Dividends</i> %	<i>Interest</i> %	<i>Royalties</i> %
Armenia	5/10	10	10
Australia	10	10	10
Austria	10 (e)	10 (d)	10 (a)
Bangladesh	10	10	10
Belarus	10	10	10
Belgium	10	10	10 (a)
Brazil	10	10	10
Bulgaria	10	10	10 (b)
Canada	10	10	10
Cyprus	10	10	10
Czechoslovakia (f)	10	10	10
Denmark	10	10	10 (b)
Finland	10	10	10 (b)
France	10	10	10 (a)
Germany	10	10	10 (b)
Hungary	10	10	10
Iceland	10	10	10
India	10	10	10
Israel	10	10 (d)	10 (b)
Italy	10	10	10 (b)

	<i>Dividends</i> %	<i>Interest</i> %	<i>Royalties</i> %
Jamaica	5	7.5	10
Japan	10	10	10
Korea	5/10	10	10
Kuwait	5	5	10
Latvia	5/10	10	10
Lithuania	5/10	10	10
Luxembourg	5/10	10	10 (a)
Malaysia	10	10	10
Malta	10	10	10
Mauritius	5	10	10
Mongolia	5	10	10
Netherlands	10	10	10 (a)
New Zealand	10	10	10
Norway	10	10	10
Pakistan	10	10	10
Poland	10	10	10 (b)
Romania	10	10	7
Russian Federation	10	10	10
Singapore	10 (c)	10 (d)	10
Slovak Republic	10	10	10
Slovenia	10	10	10

	<i>Dividends</i> %	<i>Interest</i> %	<i>Royalties</i> %
Spain	10	10	10 (a)
Sweden	10	10	10 (b)
Switzerland	10	10	10 (a)
Thailand	10	10	15
Turkey	10	10	10
Ukraine	5/10	10	10
United Kingdom	10	10	10 (b)
United States	10	10	10 (b)
Uzbekistan	10	10	10
Vietnam	10	10	10
Yugoslavia	5	10	10

- (a) The withholding tax rate is 10%, but for royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment, the rate is applied to only 60% of the royalties paid.
- (b) The withholding tax rate is 10%, but for royalties paid for the rental of industrial, commercial or scientific equipment, the rate is applied to only 70% of the royalties paid.
- (c) The withholding tax rate is reduced to 7% if the recipient is a company or partnership that holds directly at least 25% of the shares of the payer of the dividends.
- (d) The withholding tax rate is reduced to 7% for interest paid to banks or financial institutions.
- (e) The withholding tax rate is reduced to 7% if the recipient holds directly at least 25% of the voting shares of the payer of the dividends.
- (f) China is honoring the Czechoslovakia treaty with respect to the Czech and Slovak Republics until new treaties are signed.

China has signed double tax treaties with Croatia, Indonesia, Mexico, Myanmar, Papua New Guinea, Tunisia and the United Arab Emirates, but these treaties have not yet been ratified.

**Appendix 8: Individual Income Tax Calculation**

The following example illustrates the calculation of monthly individual income tax payable by a foreign individual receiving monthly employment income of RMB 12,000 using the gross-up and the non-gross-up methods.

**Individual Income Tax Rates**

<i>(A) Gross-up Taxable Income or Income After Standard Deduction for Non-Gross- up Method</i>		<i>(B) Income After Standard Deduction for Gross-up Method</i>		<i>(C) Effective Tax Rate</i>	<i>(D) Quick Reckoning Amount</i>
<i>Exceeding RMB</i>	<i>Not Exceeding RMB</i>	<i>Exceeding RMB</i>	<i>Not Exceeding RMB</i>	<i>%</i>	<i>RMB</i>
0	500	0	475	5	0
500	2,000	475	1,825	10	25
2,000	5,000	1,825	4,375	15	125
5,000	20,000	4,375	16,375	20	375
20,000	40,000	16,375	31,375	25	1,375
40,000	60,000	31,375	45,375	30	3,375
60,000	80,000	45,375	58,375	35	6,375
80,000	100,000	58,375	70,375	40	10,375
100,000	—	70,375	—	45	15,375

### ***Gross-up Method***

The following calculation illustrates the gross-up method, which is used if the employee's tax liability is borne by the employer.

Gross-up taxable income = Income after standard deduction + Gross-up amount

Gross-up taxable income = (Income after standard deduction per Column B - D) / (1-C)

Gross-up taxable income = (RMB 12,000 - RMB 4,000 - RMB 375) / (1 - 20%)  
= RMB 9,531.25

Tax Payable = (Gross-up taxable income per Column A x C) - D

Tax payable = (RMB 9,531.25 x 20%) - RMB 375 = RMB 1,531.25

### ***Non-gross-up Method***

The following calculation illustrates the non-gross-up method, which is used if the tax liability is borne by the employee.

Tax Payable = (Income after standard deduction per Column A x C) - D

Tax payable = (RMB 12,000 - RMB 4,000 x 20%) - RMB 375 = RMB 1,225.00



## Ernst & Young in China

Ernst & Young is one of the leading professional services firms in China. Our 3,000 professionals and support staff are available anywhere in China, working in 8 offices located throughout the country.

Ernst & Young professionals in China are experienced in all aspects of business services, particularly in the following areas:

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- **Employer Services:** We provide advice on all issues affecting employers, including employment law and contracts; human resources policy; income tax and social security withholding; compensation and pensions; employee share schemes and profit-related pay schemes.

In China, Ernst & Young serves organizations of all sizes, from major multinational corporations to medium-sized companies and small family-owned businesses. Our clients comprise entities in many legal forms, including public and private companies, cooperatives, partnerships, trusts, nonprofit organizations, mutual funds, public works and public bodies. We have clients in every industry. We also assist individuals with all types of personal tax and expatriate issues.

## ***Publications***

Ernst & Young produces many publications that examine the challenges encountered by companies doing business across borders. The International Business Series includes the *Worldwide Corporate Tax Guide*, *The Global Executive* and the *Doing Business In* series. In addition, Ernst & Young produces a range of other publications that will be of interest to companies doing business in China.

### *International Publications*

- *Worldwide Corporate Tax Guide*: An annual publication summarizing the corporate tax systems in more than 130 countries.
- *The Global Executive*: An annual publication summarizing the personal tax systems and immigration rules and procedures in more than 130 countries.
- *Doing Business In*: A series of books that survey the investment climate, taxation, forms of business organization, and business and accounting practices in more than 20 countries.

### *Local Publications*

- *China Update*: A newsletter reporting on the latest tax and business issues in the PRC.
- *PRC Client Alert*: A newsletter summarizing current tax developments of interest to our PRC clients.

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