

China Business Advisory

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Editor's Note

It is encouraging to see that after a year of turmoil there are signs that the world economy is starting to recover to some extent and move out of the shadow of the downturn. We hope that 2010 will be an even better year and we will work with our clients side by side to make this happen in respect of your endeavors in China. We take this opportunity to wish you and your beloved ones a year filled with joy and great health and prosperity!

Economic News

China has overtaken Germany as the world's top exporter. As noted by the government officials at an economic forum in Beijing on January 10th 2010, to strengthen the mainland's recovery and achieve sustainable development this year, Beijing will pay more attention to economic restructuring. Further to this statement, Beijing jumped in to put a brake on runaway bank lending on January 12th 2010. The central bank raised the reserve ratio requirement for lenders by 50 basis points to 16 percent. This could mop up about 200 billion yuan from the banking system, according to the economists. Market watchers interpret the moves as the first step of China's exit from its stimulus plans, reversing the world's loose monetary policy prevalent since the collapse of Lehman Brothers in September 2008. This early control was the response to concerns about excess liquidity that could fuel possible asset bubbles in both stock and property markets in Beijing.

Tax in China

Individual Income Tax ("IIT") on enterprises' annuities clarified

State Administration of Taxation ("SAT") announced a notice in the early December 2009 to clarify the IIT treatment on annuities, which is summarized below:

◆ Employee contribution

This portion is not deductible from the employee's monthly salary or wages when filing returns to account for IIT.

◆ **Employer contribution**

This portion is treated as salary for the purpose of IIT calculation. If part or all contributions have to be drawn back from an individual's account due to various restrictions, the IIT paid thereon is refundable.

New regulations for Representative Offices (“ROs”)

The State Administration of Industry and Commerce (“SAIC”) and the Ministry of Public Security (“MPS”) jointly issued a notice on January 4th, 2010 which introduces some changes to certain administrative matters of ROs, including registration, change of name and renewal. Some of the main points are:

- ◆ The parent company is required to have existed for more than two years;
- ◆ A bank reference letter and the incorporation certificate of the parent company have to be provided, which should be notarized by recognized lawyers and then endorsed by the Chinese Embassy or Consul Office;
- ◆ The registration certificate of the RO will only be valid for one year;
- ◆ A notarized incorporation certificate of the parent company is required for renewal of license of the RO every year;
- ◆ The number of foreign representatives, including the Chief Representative, should not be more than four. The existing ROs which already have more than four representatives when this new regulation came into effect can continue to maintain the number then but will not be allowed to have further additions;
- ◆ The authority will visit the registered office of the RO to verify the information of the ROs within 3 months after releasing the registration certificate.

Information on the annual important issues for FIEs in China



We believe all the foreign invested enterprises (“FIEs”) in China are busy for the year-end closing work. On this we would like to summarize the important issues to be tackled in the next few months:

◆ **Annual audit**

FIEs are required to prepare their annual financial statements and necessary supporting documents according to China's accounting standards for the annual audit. The audit should be undertaken by Chinese certified public accounting firms (“CPA”). Normally two separate reports will be issued by the CPA after the audit. One is the report on the financial statements and the other is the report on foreign exchange transactions. The audit reports are part of the requested documents for the annual Corporate Income Tax

(“CIT”) settlement and annual governmental examinations which are explained below.

◆ **Annual CIT settlement**

FIEs must file their annual CIT return with the tax authority within five months from the calendar year end and to reconcile the quarterly CIT filings with the actual CIT payable (based on the audited financial statements) and to settle the annual tax liability through payment of shortfall or apply for refund of tax overpaid. In accordance with the new CIT law and its relevant regulations, we list some items that may result in adjustment for tax payable for your reference:

- ✓ Advertising and business promotion expenses;
- ✓ Entertainment expenses;
- ✓ Donations;
- ✓ Commission;
- ✓ Commercial insurance expenses;
- ✓ Various provisions;
- ✓ Fixed assets and depreciations;
- ✓ Staff education fund and welfare expenses;
- ✓ Management fees between enterprises;
- ✓ Related party transactions; and
- ✓ Interest expenses, especially those derived from loans from related parties.

◆ **Annual governmental examinations**

This is a bureaucratic process which requests FIEs to submit paper works on an annual basis to different governmental departments for examination in order to renew its licenses and certificates. Depending on the location of registration, the process could be done through online services and/or by visiting the respective offices of the different government departments. The relevant governmental departments include the Bureau of Foreign Trade and Economic Cooperation or the Bureau of Commerce, the Administration of Industry and Commerce, the State Tax Bureau, the Local Tax Bureau, the Finance Bureau, the State Administration of Foreign Exchange and the China Customs.

Shanghai World Expo 2010

Giant pandas arrived in Shanghai for display during World Expo 2010

Ten giant pandas, 6 female and 4 male, from Wolong Giant Panda Reserve Centre in Sichuan province arrived in Shanghai in early January and will stay for 6 months at Shanghai Zoo and another 6 months at Shanghai Wildlife Zoo. All these lovely pandas were born at Wolong after the catastrophic earthquake struck Sichuan in May 2008.



Service Highlight

Mergers and Acquisitions

Despite the discouraging global economic situation last year, smart investors are actively looking for value-for-money investments by taking advantages of lower valuations and more relaxed regulatory environment. Whether companies are looking to invest, expand, revitalize or relinquish their business, Sino-Bridge has the strategic connections, expertise and people to help you through the entire process, from start to finish.

Visit <http://sinobridge-consulting.com> to find out how we can help you, or email Ms Nikita Yim at nikitayim@sinobridge-consulting.com.

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