

China Business Advisory

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TABLE OF CONTENT

1 China Updates

- + Editor's Note
- + Investing in China
- + Information on the annual important issues for FIEs in China
- + Mergers and Acquisitions

2 Sino-Bridge Service Highlight

Editor's Note

Despite a spate of uncertainties over the global economy arising from the loose monetary policy in the US and the future of the Euro, China came out with strong data in most economic fronts alongside the issues it has to tackle as is the case with the developed countries. Most of our clients were seeing good progress in the operation in China last year. We, Sino-Bridge,

hope and believe the trend will continue well into 2012 and take this opportunity to wish our readers a most successful Year of the Dragon.

Investing in China

While the whole China was winding down in January to take stock of the achievements of the past year and celebrate the Year of the Dragon, we take a break on the heavy regulations and shall devote this CBA issue fully to the new Guideline for Foreign Investments that became effective on 30th January, 2012.

Foreign investments played an important role in the economic growth of China since its opening up to the world some thirty years ago. Foreign Direct Investments (FDIs) in China ranked first for the successive years of 2009 and 2010 and, for 2011, reached just over the US\$ 100 billion mark by November. The economic benefits arising also carried with them challenges for China. The new Guideline, while furthering the attraction of FDIs, has these challenges to take heed of and sees the need to fall in line with the Country's latest 5-year plan.

For a change, there was public consultation before the release of this new Guideline which, as with many other indicators, illustrates a step forward by the Chinese government towards transparency even though the Western World might feel more at ease with a bigger leap.

The key features of this new Guideline are as follows:

1. There continue to be less restricted and forbidden industries and more encouraged ones.
2. China has come to the stage where it values quality a lot more than just quantity in terms of FDIs. To this end, foreign investments of high technology content and those that can help to transform the Chinese economy from largely a production base to the next stage are looked at a lot more favourably. Examples of these include the service sector, the setting up of research and development centres and new energy development. On the other hand, the automobile industry will be under close scrutiny to minimize blind investments resulting in misallocation of scarce resources.
3. The West and North East regions will be given special incentives to help with their economic and social development.

Information on the annual important issues for FIEs in China

As in the previous years, we believe all the foreign invested enterprises (“FIEs”) in China are busy for the year-end closing work. We would like to take this opportunity 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. The audit reports are part of the requested documents for the annual Corporate Income Tax (“CIT”) settlement and annual governmental examinations which are introduced hereunder.

◆ Annual Corporate Income Tax (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 application of refund of excess tax paid. 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;
- ✓ Commissions;
- ✓ Commercial insurance expenses;
- ✓ Various provisions and assets losses;
- ✓ Fixed assets and depreciation;
- ✓ Staff education fund and welfare expenses;
- ✓ Management fees between enterprises;
- ✓ Related party transactions, transfer pricing issues; 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.

◆ **Other important issues**

- ✓ Annual IIT self filing for certain employees;
- ✓ Annual report for ROs;
- ✓ CIT filing in new format from January 1st, 2012;
- ✓ Filing of VAT instead of BT for Shanghai enterprises in certain industries;

Mergers and Acquisition

Over the past year we have seen foreign investors more actively looking for value-for-money investments by taking advantages of lower valuations and more relaxed regulatory environment and we have been involved in a number of them. Whether companies are looking to invest, expand, revitalize or relinquish their business, Sino-Bridge has the expertise, people and strategic connections to help you through the entire process.

Service Highlight

By the time our readers receive this CBA, we are already in the midst of celebrating our Chinese New Year. Sino-Bridge would like to wish you a most prosperous year ahead to which we will be more than pleased to offer our contributions. Please feel free to call Ms Mary Li, our Marketing Executive, on +852 3579 8745 or email her at maryli@sinobridge-consulting.com for any assistance you may need from us to enhance your operation in China for the coming year and beyond. Happy Year of the Dragon!



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