

## China Business Advisory

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### 18<sup>th</sup> CPC National Congress

The 18<sup>th</sup> National Congress of Communist Party of China (“CPC”) was held this month. As the second biggest economy in the world, China and therefore the CPC National Congress are drawing more and more attention all over the world. The Congress has come up with 7 members (compared to 9 previously) to constitute the Politburo Standing Committee which is the highest governing body of the Country. Among them, Xi

Jinping emerges with little surprise to succeed Hu Jintao to take over the top position to head the Communist Party and the Military Commission. He is tipped to be a market-oriented reformer and will likely devote more efforts to market reformation. In this light the market of China may be more open and the growth of the economy more extensive.

### China revises regulations on futures trading

The State Council unveiled revisions, to take effect from 1 December 2012, to the Administrative Regulations on Futures Trading, which was first published in 2007, to provide a clear legal basis for supervision over futures trading activities. An important provision is overseas institutions are allowed to conduct futures trading of certain products. This leaves room for overseas investors to directly participate in futures trading of crude oil which the government is currently planning to roll out. All these help to internationalize the futures market of China.

### Rules on capital contribution to FIE with equity interests issued

The Chinese Ministry of Commerce published Interim Provisions on Capital Contribution to Foreign

Invested Enterprises with Equity Interests to allow the equity of Chinese companies to be used for the creation of Foreign-invested Enterprises (“FIEs”). Foreign investors will find greater flexibility in restructuring their assets in China if this could be an additional means for capital injection. There are however a number of conditions to this including:

- the equity interests must be in a PRC incorporated company (a “PRC Company”);
- title to the equity interests;
- full payment of the registered capital;
- equity interests not having been pledged or frozen;
- allowance by the articles of association;
- passing annual inspection

The equity interests to be contributed must be valued by qualified entities. Equity interests in certain companies such as real estate enterprise, foreign-invested investment companies are not eligible for contribution.

### **Update on China VAT reform pilot program in different cities**

According to the Notice issued by the Ministry of Finance and the State Administration of Taxation on 31 July 2012, the various provinces and municipalities should complete the conversion by the following dates:

- ✓ 1 September 2012: Beijing Municipality
- ✓ 1 October 2012: Jiangsu Province, Anhui Province
- ✓ 1 November 2012: Fujian Province, Guangdong Province
- ✓ 1 December 2012: Tianjin Municipality, Zhejiang Province, Hubei Province
- Jiangsu Province releases Announcement on Transitional Tax Policies (Announcement [2012] No. 8). Besides, Jiangsu releases Circular on Collective Acceptance of Taxpayers under VAT Reform (Suguoshuifa [2012] No. 161) on 7 November, aiming to promote smooth implementation of the VAT pilot collection in the province and effectively reduce the burdens of taxpayers.
- Guangdong Province Releases Announcement on Invoice Issuance (Announcement [2012] No.11)

on 23 October 2012.

- Shenzhen Clarifies Transitional Financial Support Policies for VAT Reform (Shencaifa [2012] No.41) on 30 October 2012, clarifying financial support issues regarding VAT reform in the city.
- Guangzhou Releases Plan for VAT Pilot Collection (Suifuban [2012] No.47) on 12 October 2012. Besides, Guangzhou Issues FAQs Regarding VAT Reform-- a recent press conference held in Guangzhou, several frequently asked questions (“FAQs”) relating to the VAT reform in the city were answered by officials from relevant government departments.
- VAT Reform in Fujian Province-- a press conference held by the Fujian provincial government on 30 October 2012, clarified clearly the Pilot scope, Applicable tax rates, Transitional policies, Financial support, supporting period etc.
- Zhejiang Province has issue the notice on the transportation industry and part of the modern service industry business tax change, and VAT Pilot transition preferential policies related matters.

## **China E-commerce Booming**

Turnover of e-commerce in China in the first half of 2012 jumped 18.6 percent from a year earlier to US\$ 562.1 billion. And the prosperous shopping spree on 11 November is another climax of China's online businesses. A market research report published earlier this year showed that the total number of online shoppers in China in 2011 was 187 million, an increase of 39 million compared to the previous year. This growth rate is expected to be exponential on the strength of growing domestic demand and consumption.

## **Service Highlight**

Gaining full understanding of the principles and rationales behind the regulations, especially in the ever-changing regulatory environment in China, is a must to be regulation compliant. We have been helping our clients to this direction with our experience in China. For any assistance from us, you are encouraged to contact our Marketing Executive, Ms Mary Li, on +852 3579 8745 or email her at [maryli@sinobridge-consulting.com](mailto:maryli@sinobridge-consulting.com) for any advice you may need.

### **Our China Investment Business Advisory Team**

#### **Hong Kong**

Room 2301-02, 23/F, Prosperity Center,  
25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong

#### **Guangzhou**

Room 1601D02,16/F Vili International, 167 Linhexilu,  
Tianhe District, Guangzhou PCR 510000

#### **Lyon Odiceo**

115 Boulevard Stalingrad – BP52038,  
69616 Villeurbanne Cedex, France

Company Website:

[www.sinobridge-consulting.com](http://www.sinobridge-consulting.com)

#### **Shanghai**

Room 17B, 17/F, World Plaza, No.855 South Pudong  
Road, Pudong New Area, Shanghai, PRC 200120

General:

Tel: (852) 3579 8745

E-mail: [info@sinobridge-consulting.com](mailto:info@sinobridge-consulting.com)

### **Hong Kong Guangzhou Shanghai Lyon**

For any enquiries, please contact Ms. Mary Li, Marketing Executive: [maryli@sinobridge-consulting.com](mailto:maryli@sinobridge-consulting.com) Tel: (852) 3579 8745  
[www.sinobridge-consulting.com](http://www.sinobridge-consulting.com)