

China Business Advisory

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TABLE OF CONTENTS

1. China Updates

- ✧ Businesses Open to FIE in Shanghai Pilot Free Trade Zone (“FTZ”)
- ✧ China Further Opens the Express Delivery Market
- ✧ Accelerated Depreciation on Fixed Assets to Promote the Technological Transformation of Enterprises
- ✧ China Carries out Anti-tax Avoidance Investigation on Significant Outbound Payments

2. Service Highlight

- Photography services;
- Processing of Chinese tea by conventional technology;
- Wholesale and retail business of plant oil, sugar and chemical fertilizers;
- Retail business of grains and cotton;
- Mail ordering and online sales business; and
- Real estate brokerage business.

Besides, a number of restrictive articles in the Foreign Investment Guidance Catalogue are now revised. WFOEs in the FTZ are now permitted to engage in the following industries, which are previously open only to JVs:

- R&D and application of new technologies in petroleum exploration;
- Research, development, design and manufacture of passenger service facilities and equipment

Businesses Open to FIE in Shanghai Pilot Free Trade Zone (“FTZ”)

The State Council released GuoFa [2014] No.38 on 4th September 2014 (the ‘Decision’), which allows foreign investments in the FTZ, in the form of wholly foreign-owned enterprise (“WFOE”) or joint ventures (“JV”), for participation in the following industries:

- Wholesale business of salt;
- Cargo transportation by railway;

to support high-speed railways, passenger trains and inter-city rails;

- Construction and operation of local railways and ferries;
- Design of yachts and luxury liners;
- Development and manufacture of parts in use at civil airplane engines; and
- Handling of cargoes and management of container yards

It is worthy to note that the Decision has loosened the equity ratio for foreign investments in certain industries:

- Equity holding by foreign investor of shipping agency is permitted to exceed 51%;
- Shipboard machinery design companies can now be wholly held by WFOE; and
- Manufacturer of motorcycles with displacement below capacity of 250ml are entitled to run as WFOEs.

China Further Opens the Express Delivery Market

Chinese Premier Li Keqiang held a State Council meeting on 24th September 2014, during which a decision was made to further open the express delivery market to promote fair and orderly competition between local and foreign investments. Accordingly, the Ministry of Commerce released Shang Liu Tong Han [2014] No.790, which aims at boosting development of logistics enterprises through the issue of business licenses to eligible foreign delivery enterprises. In the meantime, the relevant authorities will go on simplifying business license application procedures. Though the postal law enacted in 2009 has prohibited the express letter business to foreign investors, the full opening up the domestic express delivery market means that the foreign express delivery companies can now legally enter China's domestic market of the letters express delivery.

Accelerated Depreciation on Fixed Assets to Promote the Technological Transformation of Enterprises

On 24th September 2014, Premier Li Keqiang led in a State Council meeting, which introduced

certain favourable policy terms, aiming at deploying the policy of accelerated depreciation on fixed assets to promote technological transformation and innovation of enterprises.

It was determined that:

- For instruments and equipment purchased after 1st January 2014, provided that the unit value is not exceeding RMB1,000,000, the purchase cost can be recognized as an one-time cost to be deducted before tax. For those whose unit value is over RMB1,000,000, there are ways to speed up the depreciation charges for tax purposes;
- Fixed assets of unit value below RMB5,000 can now be charged directly as an one-time expense for tax purposes;
- For other fixed assets purchased after 1st January 2014 by enterprises in certain industries such as bio-pharmaceutical manufacturing, precision equipment manufacturing, computer, communications and other electronic equipment manufacturing etc., there are ways of speeding up depreciation charges for tax purposes.

This policy is geared to facilitate further investment in R&D and technical equipment of related industries to enhance the global competitiveness of China's advanced manufacturing products.

China Carries out Anti-tax Avoidance Investigations on Significant Outbound Payments

In order to prevent profit shifting abroad, China State Tax Bureau is now intensifying its Anti-tax avoidance move and carried out a survey on significant amounts of service fees and royalties paid to related parties abroad during 2004 to 2013.

The survey mainly looked at the following items related to service fees and royalty payments:

- Service fees
 - Paid to shareholder for planning, management and monitoring services;
 - For group management;
 - Related to services which can be rendered by the company itself;

- Unrelated to current operation;
- Duplicated

- Royalty payments:
 - To tax heaven;
 - To overseas related parties which only perform simple functions;
 - Of significant amounts

Ensuing from the survey, special tax adjustment filing procedures will be requested for enterprises suspected of engaging in these tax avoidance activities.

Service Highlight

It is evident that the Chinese government is becoming keener on simplifying the process for business operation in China. We are pleased to be in a position to help investors to take advantage of this to identify and explore investment opportunities in their best interests. We take pride in rendering all the advice our clients need to enable them to manage their investment in China with due success. Our Marketing Executive, Ms. Yannes Lam, would like to hear from you at (852) 3579 8745 or yanneslam@sinobridge-consulting.com as to how we can assist your business plan for China.

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