

Doing Business Guide

China

1st Edition



Jonten

Certified Public Accountants Co. Ltd



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About This Booklet

This booklet has been produced by Jonten Certified Public Accountants Co. Ltd to provide an introduction to foreign investors on the various aspects of doing business in China.

Its main purpose is to provide a broad overview of the various things that should be considered by organisations considering setting-up business in China.

The information provided cannot be exhaustive and – as underlying legislation and regulations are subject to frequent changes – we recommend anyone considering doing business in China or looking to the area as an opportunity for expansion should seek professional advice before making any business or investment decision.

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While every effort has been made to ensure the accuracy of the information contained in this booklet, no responsibility is accepted for its accuracy or completeness.

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Overview

History

The People's Republic of China (PRC) was founded on 1 October 1949 by Mao Zedong, the first-generation leader of the Communists. This is considered the starting-point for the modern history of China, an ancient civilisation of at least 5000 years. With Deng Xiaoping, the second-generation leader, at the helm in the 1980s, China set a course towards economic reconstruction. After several years' arduous struggle, China's economy saw considerable development. With the handover of Hong Kong and Macau in the 1990s, China's 'one country, two systems' plan gained impetus. Then, Jiang Zemin's leadership charted a new course based on economic growth, and his successor Hu Jintao looks set to intensify efforts to achieve economic modernisation. The People's Republic of China (PRC), one of the developing countries of the world, is a socialist country with its own unique characteristics.

China lies in the east of Asia; Beijing, situated in northern China, is the capital. With a total land area of about 9,600,000 km², China consists of 34 provinces, autonomous regions, and municipalities directly under central government. There are a number of neighbouring countries: to the north, northeast and northwest, Mongolia, Russia and Korea; to the south, Vietnam, Laos, Thailand and the Philippines; to the west and southwest, India, Myanmar, Bhutan, Nepal and Pakistan; and to the east, Japan, which faces China across the East China Sea.

Given its vast area, China has an enormous variation in climate. In the southern part, temperatures remain fairly steady, with rainfall throughout the year. Especially in the southwest, the climate is pleasantly warm during the winter, but the summer is uncomfortably hot. The north central states have another kind of climate altogether: summers are usually hot, and winters cold. Spring temperatures are comfortably warm, and autumn temperatures are pleasantly cool. The temperature changes from -20°C in winter, with some snow, to 30°C in summer, with some rain.

China Today

China's coastal border has become established along the Yangtze River – a wide-ranging, multi-level inland area. The Chinese market has expanded considerably, partly due to the preferential policy, the development of an export-oriented economy and the introduction of advanced technology. While these business activities are concentrated along the coastal border, the effects are already radiating into the Chinese continent.

In its efforts to develop the local economy, the Chinese government is constantly seeking opportunities to expand the services that China offers to the outside world, making new connections to forge mutually beneficial links with other countries, and exploring innovations in overseas investment.

Population

China has the largest population in the world: one-fifth of the world's total, with an estimated

1.371 billion people by May 2012. This puts considerable pressure on economic development and environmental protection. Moreover, the Chinese population is unevenly distributed. The east is densely populated, while the west is sparsely populated; the plains are densely populated, but the mountainous areas and plateaus are sparsely populated. China is a multi-racial country, the predominant race being Han (about 1.2 billion), followed by Zhuang (about 15 million). The official language is Putong Hua.

Constitution and Law

China's political system is a system of multi-party cooperation and political consultation under the leadership of the Communist Party of China (CPC). In essence, China is a republic state ruled by a national people's congress system that is also the highest authority and legislature. Congress is held once a year by its Standing Committee; the President and Vice President of China are elected by the National People's Congress.

The Executive comprises the Department of State (central people's government), led by the Premier, and local people's governments at all levels, which are supervised by the National People's Congress.

The Legislature comprises the Supreme People's Courts and Supreme People's Procuratorate, which is supervised by National People's Congress.



The Chinese Economy

In 2011, faced with the complex and volatile international political and economic environment and changes within the domestic economy, the Chinese government focused on scientific development in order to accelerate transformation of the mode of economic development. They sought to strengthen and improve macroscopic adjustments and optimise processing to maintain steady and rapid economic development, restructure the economy and manage inflation expectations. To consolidate its position and achieve its twelfth '5-Year Plan' (2011-2016) in the context of the international financial crisis, the national economy continues to maintain close macroeconomic regulation and control, sustaining rapid growth, stabilising prices and supporting investment.

The total gross domestic product (GDP) in 2011 was over RMB 47 trillion yuan, an increase of 9.2% from 2010. Agriculture, manufacturing and service sector industries have grown at 4.5%, 10.6% and 8.9%, respectively. Industry as a whole has increased in value by 188,600 billion yuan (10.7%). Consumption and investment show stable growth, with an enhanced dynamic for domestic demand. Total retail sales of social consumer goods are over 18,391 billion yuan (an increase of 17.1%). Total investment in fixed assets is over 31,102 billion yuan (an increase of 23.6%), of which private investment (excluding agriculture) has grown by 34.3% since 2010.

The next major economic and social development goals are:

- GDP to grow by 7.5%
- Urban employment to increase by >9 million people
- Maintain the registered urban unemployment rate at or below 4.6%
- Rise in consumer prices of about 4%
- Total import and export volume increase of around 10%,
- Continuous improvement in international balance of payments.

At the same time, the industrial sector has benefited from structural adjustment, independent innovation, energy saving and emission reduction. It is important to note that the GDP growth target is slightly low, consistent with the objectives of the twelfth '5-Year Plan' which aims to encourage all sectors to focus on gradual transformation – developing new modes of economic development and quality improvement – in order to achieve progress that can be sustained at a high level over the long term.

Banking and Finance

An Overview

China's financial system is mainly composed of banking, securities and insurance industries. They are operated separately and supervised by the China Banking Regulatory Commission, the China Securities Regulatory Commission and the China Insurance Regulatory Commission.

Banks

The banking system in China comprises the central bank, commercial banks and policy banks.

Central Bank

The People's Bank of China is the central bank, responsible for:

- Issuing and enforcing relevant orders and regulations
- Formulating and implementing monetary policy
- Issuing RMB and administering its circulation
- Regulating the inter-bank lending market and inter-bank bond market
- Administering foreign exchange and regulating the inter-bank foreign exchange market
- Regulating the gold market
- Holding and managing official foreign exchange and gold reserves
- Managing the state treasury; maintaining normal operation of the payment and settlement system
- Guiding and organising the anti-money-laundering work of the financial sector and monitoring relevant fund flows
- Conducting financial statistics, surveys, analysis and forecasts; participating in international financial activities in its capacity as central bank
- Performing other functions specified by the State Council.

Commercial Banks

China's commercial banks mainly provide commercial banking services to the public, such as deposits, loans, and intermediary or investment business. Their activities are regulated by the Law of the People's Republic of China on Commercial Banks.

There are five kinds of commercial bank: state-owned, joint-equity, local, rural, and postal savings. With the further opening of financial markets, foreign banks (such as Citibank and HSBC) are also an important part of China's financial system.

There are four state-owned commercial banks in China:

- Industrial and Commercial Bank of China (ICBC)
- China Construction Bank (CCB)
- Agricultural Bank of China (ABC)
- Bank of China (BOC).

Based on total assets, state-owned commercial banks account for about 80% of the assets.

There are also a number of joint-equity banks in China's financial market, such as the China Merchants Bank, China Minsheng Bank, China CITIC Bank, Bank of Communications, etc.

Local commercial banks are operated only in a particular city, such as the Beijing Bank in Beijing and the Jinshang Bank in Taiyuan.

Policy Banks

China's policy banks include the China Development Bank, the China Agricultural Development Bank and the the Export-Import Bank of China. These three banks' role is to issue a loan to the state-building project in related industries in accordance with national industrial policy. For example, as the name suggests, the Agricultural Development Bank is dedicated to supporting the development of agriculture. They are not engaged in the savings-deposit business.

Insurance

At present, China's insurance market is characterised by being an oligopoly. That is, the People's Insurance Company of China Holdings Company (a state-owned company), the China Life Insurance Company, the China Ping Insurance (Group) Company and the China Pacific Insurance Company already hold 96% of the insurance market share.

Opening a Bank Account

Normally, a company needs to open a basic bank account after its incorporation. The following documents are required to be forwarded to the bank:

- Original form and copy of business licence
- Original form and copy of organisation code certificate
- Original form and copy of tax registration certificate (national and local tax authorities)

- The person legally responsible for the enterprise should show their own identification card to the bank when opening an account for the company, or authorise someone to do so on their behalf by supplying a letter as well as presenting ID cards for both the official and delegated authorised persons. The letter and a copy of the ID card will be kept on file at the bank.

Generally, approval for a locally incorporated company to open a bank account is fairly straightforward, provided all the required documents are supplied.

Using Bank Facilities

Banks normally need to satisfy themselves as to both the security of the loan and the ability of the borrower to service the interest and the loan repayment commitments. The size of the loan and security offered will determine how much information the banks need to obtain. The basic information required is summarised as follows:

- Background history of the borrower
- Purpose of loan
- Draw-down requirements, repayment provisions, interest only or debt reduction
- Security available
- Ability to service both the interest and debt repayment
- Copies of financial accounts for past 2 years
- Certified extract of directors' resolution for acceptance of bank facilities.

Official Agencies Providing Assistance to Enterprises

Over the years, various government institutions have been set up to provide service and assistance to enterprises in China. The principal agencies are described below.

China Banking Regulatory Commission

The China Banking Regulatory Commission (CBRC) was authorised by government to supervise and manage unified banks, financial asset management companies, trust investment companies and other deposit-taking financial institutions, to ensure the legal and steady running of the banking industry. Since 28 April 2003, the CBRC's formal functions are to:

- Formulate supervisory rules and regulations governing banking institutions
- Authorise the establishment, changes, termination and business scope of banking institutions
- Conduct on-site examination and off-site surveillance of banking institutions, and take enforcement actions against rule-breaking behaviours
- Conduct fit-and-proper tests on senior managerial personnel of banking institutions
- Compile and publish statistics and reports of the overall banking industry in accordance with relevant regulations
- Provide proposals for the resolution of problem deposit-taking institutions, in consultation with relevant regulatory authorities
- Administer the supervisory boards of the major state-owned banks.

China Securities Regulatory Commission

The China Securities Regulatory Commission (CSRC) is a body under direct control of the State Council. It is authorised by the state department to to keep the national securities and futures industry in centralised and unified regulation.

China Insurance Regulatory Commission

A ministerial institution directly under the State Council, the CIRC supervises and manages the insurance market and maintains the legal and stable operation of insurance operations in the country, in accordance with the functions of administrative management authorised by the State Council and relevant laws, rules and regulations. Its main functions and responsibilities are:

- To formulate guidelines and policies for developing insurance business, to draw up development strategies and plans for the industry; to formulate laws, rules and regulations for insurance supervision; and to introduce rules and regulations for the insurance industry

- To examine and approve the establishment of insurance companies and their subsidiaries, insurance group companies, and insurance holding companies; to examine and approve the merger, split, change and dissolving of insurance institutions
- To examine and approve the qualifications of senior managers of various types of insurance institutions; to formulate basic standards for the qualifications of staff engaged in insurance
- To examine and approve the categories of insurance schemes related to public interests, to impose insurance articles and rates of premium for compulsory insurance schemes and newly developed life insurance schemes, and to accept filing for the record of articles and premium rates of other insurance schemes according to law
- To supervise the payment ability and market conduct of insurance companies; to be in charge of the management of insurance guarantee fund, supervise insurance deposit; to formulate regulations according to law and state policies in regard to the operation of insurance funds and to supervise the operation of funds of insurance companies according to law
- To supervise policy-oriented insurance and compulsory insurance operations; to supervise such organisational forms and business operations as special self-insurance and mutual insurance; to oversee such organisations as insurance trade associations and societies
- To investigate and mete out punishment against unfair competition and illegal conduct of insurance institutions and individuals as well as the operations of non-insurance institutions and disguised insurance operations
- To supervise and oversee organisations stationed overseas by domestic insurance and non-insurance institutions according to law
- To draw up information standards for the insurance industry.

State Taxation Administration

The State Taxation Administration is a body directly under the State Council. It supervises and manages the national taxation work. Central taxes are levied by the state tax system and owned by central government, providing a fixed and increasingly important source of central government income: at present, >90% of China's annual revenue comes from taxes.

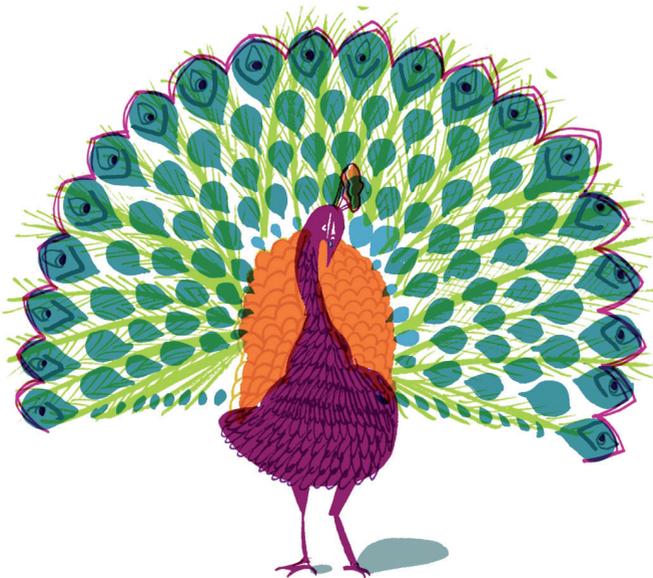
Local Tax Office

The local tax office is responsible for:

- Implementing the country's tax laws and regulations, administrative rules and various tax systems and methods formulated by higher-level authorities, interpreting these for specific implementation within the local context

- Implementing local tax laws and regulations
- Management of local tax collection
- Preparing an annual plan of local taxes; approving specific matters such as local tax relief.

The administration of value-added tax, corporate income tax and personal income tax is shared by central and local offices; business tax, property tax, stamp tax, vehicle tax and land use tax are levied by local taxation offices.



Labour and Personnel

Workforce in China

Out of the total population of 1.4 billion, approximately 760 million are employed – about one-third of these in cities, while the rest are in villages.

Statutory Working Conditions

The minimum wage protection system is one of China's schemes for labour and social security. Labourers in Beijing can earn no less than RMB 1,260 per month. The statutory working conditions for employees are as follows:

- *Working hours:* Employees should not be required to work more than 8 hours a day or 44 hours per week. Where overtime work has been performed, employees should be paid 1.5 times the hourly rate of pay; 2.5 times the hourly rate, if they worked on a normal week day off; and 3 times the hourly rate if they worked on a public holiday.
- *Annual leave:* Minimum of 5 days for employees with <10 years of service; 10 days for 10–20 years' service; 15 days for >20 years' service.
- *Public holiday:* There are three kinds of public holidays in China:
 - Holidays for all citizens – New Year's Day (1 day), Spring Festival (3 days), Labor Day (1 day), National Day (3 days), Tomb Sweeping Day (1 day), Dragon Boat Festival (1 day), and Mid-autumn Festival (1 day)
 - Holidays for select citizens: for females, on International Working Women's Day (half day); for young people aged 14–26 years, on Youth Day (half day); for people aged <14 years, on Children's Day (1 day); for active army personnel, on Army Day (half day)
 - Minority ethnic group holidays, based on their customs.
- *Social security:* These are mostly joint commitments undertaken by both company and employee. In Beijing, using salary as the scale base, the following rates apply: endowment insurance, 20% company/8% employee; medical insurance, 10%/2%; employment insurance, 1%/0.2%; work-related injury insurance, 0.5–2% (company only); social maternity insurance, 0.8% (company only); These are paid to the social security office and the Housing Fund Management Center.

Withdrawal of Social Security

The following are some basic rules relating to the withdrawal of social security in Beijing.

- On reaching statutory retirement age (60 for males, 55 for females) and 15 years' payment of endowment insurance, one can withdrawal endowment insurance monthly
- Medical insurance can be withdrawn as required from Beijing banks or Beijing Rural Commercial Bank

- Social maternity insurance is used only for maternity-related expenses. Work-related injury insurance is used for accidents in the workplace. Employment insurance can be used after 1 year's payment, and the amount varies according to local regulations on the cost of basic living standards
- Discounted interest rates apply when purchasing a house using a loan from the housing fund, which can also be used to cover the costs of home improvements.

Personal Income Tax

The current rates of levy per employee per month are as follows:

Amount (RMB)	Rate	Quick deduction
≤1,500	3%	0
1,500–4,500	10%	105
4,500–9,000	20%	555
9,000–35,000	25%	1,005
35,000–55,000	30%	2,755
55,000–80,000	35%	5,505
>80,000	45%	13,505

For example, tax for employees with a monthly income of RMB 9,400 is calculated as follows:

- Deduct standard deduction (RMB 4,500): $9,400 - 4,500 = 4,900$. If the remainder is in the negative, the employee would not pay any further tax.
- Then, calculate according to the above table: $4,900 \times 20\% - 555 = 425$.
- So, this employee should pay RMB 425 as income tax.

Legal Structure of Business Organisations

Company

A company is an incorporated association. Once formally registered, it becomes a separate legal entity from its owners and can sue or be sued in its own name, as well as owning property and incurring debts. A company must comply with legislation as set out in the Companies Act.

Limited Company

A limited company is one of the most common forms of business entity in China. It has limited responsibility for its debt, including company assets. Such companies may be limited by shares or guarantees. A company whose member liability is limited to any amount unpaid on its shares is known as 'limited by shares'. A company whose member liability is limited to the contribution undertaken is known as a company 'limited by guarantee'.

Unlimited Company

An unlimited company is one where member liability is unlimited; it is responsible for all its debt, including owner's property as well as company assets. There are two common types in China:

- *Sole proprietorship and partnership* – regulated by the Sole Proprietorship Enterprise Law and Partnership Enterprise Law. This type of company is not liable for company income tax; instead, owners must pay personal income tax.
- *Limited liability partnerships* – a LLP gives its owners the flexibility of operating as a partnership while ensuring limited liability. It combines the benefits of a partnership with those of private limited companies. It is regulated by the Partnership Enterprise Law. As a special type of partnership, the LLP should have at least one partner who undertakes unlimited responsibility.

Branches of Foreign Company

A foreign company that may not wish to incorporate a subsidiary can consider setting up a branch. As an extension of the foreign company, the branch would not be formally incorporated and thus would not be a separate legal entity. The branch company has no separate name, regulation or property; responsibility for debts uses the parent company's assets. But the branch office can sue or be sued, and has the ability to make a contract with other companies.

Representative Offices

The business scope of a Representative Office (RO) must be submitted to the registration authority, after confirmation by the industrial and commercial administrative organs (some

industries need approval) the office will qualify as a permanent establishment in China. Once registered, an RO can only engage in activities within the defined scope.

Generally, ROs in China can only be engaged in indirect business activities: they can only undertake such activities on behalf of foreign enterprises, such as liaising within the business scope of foreign enterprises, product promotion, market research, technical exchanges and similar business activities.

Accounting Records

Companies are required by law to keep and maintain proper accounting records and books of accounts, for a minimum period of 15 years, detailing the transactions and financial position of the company.

Audit of Accounts

The Companies Act requires every company to appoint an independent approved auditor each accounting year, to monitor the financial statements and report to the company's shareholders.

Every company must have its financial statements containing the income statement, cashflow statement and balance sheet audited and presented to its members at the Annual General Meeting, which must be held within 6 months after the financial year end.

Additionally, the financial statements must include a directors' report and a statement by the directors that the financial statements reflect a true and fair view of the results for the period and genuinely reflect the financial position of the company.

Living in Beijing

Immigration Requirements

People granted an Employment Visa can enjoy the same welfare benefits as local people, as long as they:

- Have 2 years' experience and a bachelor's degree
- Hold middle professional positions (or above), or equivalent qualifications
- Make a significant contribution to Beijing, or offer specialised professional services that are in short supply.

Living Conditions

Generally, living conditions in Beijing are among the most expensive in China: an ordinary private apartment costs RMB 15,000/m² to 40,000/m².

Accommodation

The types of accommodation available in China vary from one city to another. In Beijing, current rental costs are typically RMB 3,500–5,000/month for an average (about 80 m²) fully furnished private apartment. Rental prices are higher in inner city areas.

Food

Food in Beijing is very cheap, and there are many eating places serving a wide variety of foods ranging from Asian delicacies to Western dishes.

Recreation and Shopping

Many leisure activities are available in Beijing, ranging from sports facilities such as golf and tennis to cultural shows and concerts. There are also many cinemas in Beijing, showing the most current British, American and Chinese films.

There are also many private social and sports clubs in Beijing that normally offer restaurants, lounges and sports facilities for their members. Membership fees vary, depending on the location and range of facilities offered.

Shopping in Beijing is very convenient and cheap, with many shopping centres housing hundreds of shops selling a wide variety of goods and clothes.

Schooling

The government-funded schooling system provides a comprehensive curriculum of academic, sporting and skills-based learning options. Most schools have their own playing fields, gymnasiums and swimming pools. With few exceptions, all children in China must

attend school between the ages of 5 and 16. There also are a number of education and care options available to parents with children aged ≤ 5 years. Youths aged >16 years can attend high school, then university, technical school or art school.

Transport

Public transport is very convenient and cheap in Beijing. The average cost of a bus journey, depending on distance, is about RMB 1–4, subject to discounts of 60% with a monthly season ticket. There are also many air-conditioned metered taxis available, and the fares are very cheap.

The underground costs RMB 2 per journey, and the network is so well developed that it is possible to travel across the entire city on a single fare. On 28 September 2009, with the opening of line 4, the Beijing metropolitan railway includes an airport express rail line and covers a total mileage of 228 km, which is expected to reach 561 km in 2015. Mobile phone signal became available on the subway network in May 2010, and other improvements continue such as the installation of security doors.



The Next Step

Contact Jonten Certified Public Accountants Co. Ltd to discuss your needs.

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