



Getting Ready for Investments in China

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About LehmanBrown International Accountants

- LehmanBrown is a licensed China-focused accounting, taxation and business advisory firm, combining years of international expertise with practical China experience and knowledge, offering expert advice and support to local and international clients. We are committed to providing individually tailored financial solutions for each of our clients.
- We currently operate through offices in Beijing, Shanghai, Shenzhen, Tianjin, Guangzhou, Hong Kong and affiliates in several other Chinese regions and cities, which are staffed by a combination of China and expatriate professionals.
- LehmanBrown has, through its membership to global accounting and legal groups, access to partner firms in over 110 countries. It works closely with these partner firms to provide a genuinely streamlined international service.
- Through offering “whole of life” services, LehmanBrown offers clients assistance throughout every step of their China business life cycle, from pre-conception to afterlife.

About LehmanBrown International Accountants



Founded in **2001**

Fully licensed **Accounting, taxation, advisory firm** in Greater China

Currently around **200** professionals over **7** locations and **growing**

Partner firms in over 100 countries worldwide

Our Full List of Service Lines



Our International Workforce ...

An **international** and **dynamic** corporate culture

Able to **work seamlessly** across **diverse** business cultures

Professionally strong **qualified** people and **recognised** by the following bodies:



Member of TAG Alliances



Member of MSI Global Alliances



Member of MGI Worldwide Alliances



Public Company Accounting Oversight Board registered



ACCA Approved Platinum Employer

ACCA Approved Employer for Professional Development



CIMA Training Quality Partner



HKICPA Authorised Employer



CPA Australia Recognised Employer

Cleaning the Company History

Preparing for Due Diligence

What is Due Diligence

An investigation to confirm facts and details of a company in consideration.

Due Diligence Covers

- **Management** – Background check of company's decision-makers
- **Legal Issues** – Outstanding and completed Legal contentions
- **Concept** – IP & Trademark registrations and regulations adherence
- **Market** – Reviewing cash-flow projections and market share advantage
- **Capital Requirements** – Funds needed to operate successfully
- **Financial Records** – Historical financial statements going back 4 to 5 years

Financial Records are Essential

Overstatements

- Accounts Receivable
- Inventories
- Fixed Assets
- Long-Term Investment

Collectability and Impairment

- Fixed Assets
- Long-Term Investment

Understated Liabilities

- Unrecorded liabilities, such as employee's social insurance and housing fund
- Contingent liabilities, such as liabilities related to legal cases
- Taxes
- Net Assets

Warning

Under-record taxes will lead to late payment charges and potential penalties.

Bias-Free Forecasting

Forecasting and Sources of Bias

What does Forecasting Show?

Forecasts show scenarios and effects on cash flow, including the worst and best-case scenarios along with contingencies.

Source of Bias in Forecasting

- Poor Internal Control Systems
- Poor Information from both Internal and External Sources
- Incorrect Assumptions
- Unforeseen Factors (due to poor planning and lack of consultation)
- Missing Assumptions from all management, not just from the accountant

Forecasting Frequency & Improvements

Forecasting Frequency

- Calm Business Environment: Every month or every six months
- During a Crisis: Rolling Forecast every week

Improvements

- Institute clear policy and procedures for payments
- Include all sources of cash-flow
- Establish Measurable KPIs
- Consider all possibilities from the managers and accountants

Business Structure Funding & Limitations

Main Business Structures

Wholly Foreign-Owned Enterprise (WFOE)

An enterprise established within China with capital provided solely by a foreign investor but does not include any branch established in China by a foreign enterprise or other economic organizations.

Joint Venture (JV)

Foreign companies, enterprises, other commercial organizations and individuals forming joint ventures with Chinese companies, enterprises and other commercial activities within China.

Representative Offices (RO)

Foreign companies can engage in market research or operations in China without making a profit.

Funding and Limitations

Registered Capital (WFOE & JV)

- Investors can freely contribute capital in foreign currency or assets
- Renminbi profits can be used
- Registered Capital Cannot be reduced during the operating period

Foreign Debt (WFOE & JV)

- Foreign Loans are allowed within the surplus range
- Surplus range is between the total investment and the registered capital.
Formula: Foreign Debt \leq Total Investment – Registered Capital

Funding and Limitations Continued

Remittance (RO)

- Remittance transferable by foreign enterprises
- No profits can be registered from the company

Transferring Funds In & Out of China

Process for Registered Capital and Foreign Dept

Registered Capital

- WFOE or JV prepare the Articles of association.
- WFOE or JV obtain approval by the State Administration of Foreign Exchange (SAFE)
- WFOE or JV open a bank account for registered capital with the relevant documentation the bank needs.
- WFOE or JV settle registered capital from capital account to RMB account.

Foreign Dept

- WFOE or JV enter into a contract for foreign debt.
- WFOE or JV shall, following relevant provisions, apply to SAFE for registration.
- WFOE or JV may fulfil the repayment of the debts with the foreign exchanges which WFOE or JV possess, or upon verification and approval by foreign exchange regulatory departments, with foreign exchanges purchased with Renminbi after the verification of the bonafide nature of the transaction by the SAFE.
- WFOE or JV prepare the relevant documentation to the bank to transfer out the debt.

Process for Revenue In and Out

Registered Capital Rendering of services or sale of goods (revenue in)

- WFOE or JV enter into sales or service agreements.
- WFOE or JV apply to the SAFE for the permission to open foreign exchange accounts with banks involved in foreign exchange business.
- WFOE or JV shall sell foreign exchange receipts to designated foreign exchange banks in full with respect to the coverage and quantity for foreign exchange settlement with several documentation, such as the verification certificate for export proceeds, sales or service agreements

Receiving of services or purchase of goods (revenue out)

- WFOE or JV enter into purchase or service agreements.
- WFOE or JV pay taxes and obtain tax certificates for transactions
- WFOE or JV apply to the SAFE for the permission to pay with several documentation, such as the purchase or service agreement, the foreign exchange payment verification certificate for imports, the invoices, the original form for customs declaration for the imported goods.
- WFOE or JV apply to transfer money out from the bank with relevant documentation bank needs.

Important Taxes to Consider

Corporate Income Tax (CIT)

- Authorities confirm all taxes paid.
- Reserve Fund equal to 50% of company's registered capital

Foreign Investment Entity (FIE)

- Profit Distribution Plan agreed by Shareholders
- After audit and local tax authorities approval the profits can be repatriated

Double Tax Avoidance Agreement (DAT)

- Standard withholding tax on dividends is 10%; under DAT it is 5%

Process for Repatriation of Revenue

Overseas Transactions Below USD 50,000

- Annual Report, CIT Reconciliation Report, and other corroborating documentation
- One month including acquiring documentation

Overseas Transactions Above USD 200,000

- Record for Overseas Payment Form and Aforementioned Documentation
- SAFE will have to Authorise the transaction
- More than one month depending on the amount

Tax Relief And Incentives

Tax Relief and Incentives by Projects & Industries

Projects/Industries	Incentives/Reliefs
Agriculture, Forestry, Husbandry and Fishery	CIT Exempted
Flower, Tea, Beverages, Fragrant Plants, Sea Farming and inland Farming	CIT half exempted
Integrated Circuit (IC) Design Enterprise/Software Enterprise	First 2 years, CIT exempted 3 rd -5 th year, pay at half of the statutory rate (25%)
IC Production Enterprise	First 2/5* years CIT exempted 3 rd -5 th /5 th -10 th *year, pay at half of the statutory rate (25%) * Depending on products and operation period
Qualified Environment Protection and Energy Conservative Projects	First 3 years, CIT exempted 4 th -6 th year half exempted
Hi-Tech	Enjoy the reduced CIT rate of 15%

Tax Incentives in Special Regions & Zones

Areas	Limitation	Incentives/Reliefs
Xinjiang	Encouraged industries in underprivileged areas	First 2 years, CIT exempted 3 rd – 5 th years half exempted
Western regions	Encouraged industries Primary business income is over 60% of its total income	Reduced CIT rate of 15%
Free Trade Zones (Shanghai, Guangzhou, etc.)	Different FTZ has different requirements for enterprises to entry	Incentives vary from zone to zone. Generally, incentives include: <ul style="list-style-type: none"> • Have cross-border payment and currency exchange easier • Set up procedures for foreign-invested enterprises is easier • Deferred CIT • Preferential individual income tax rate for qualified professionals

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