

LEHMANBROWN

雷 博 國 際 會 計

INTERNATIONAL ACCOUNTANTS

insights@lehmanbrown

LehmanBrown will be attending the China Expo 2004
27th to 30th June
Earls Court, London
Come see us at our stand in the Services Section

For more information - [China Expo](#)

Full Trading Rights for Foreign Investors

Chinese Multinationals to operate FOREX funds overseas

11 new financial and trade laws take effect

Full Trading Rights for Foreign Investors

China has honored its WTO commitments by announcing that it will open trading rights to foreign investors by 11th December 2004, with the measures due to take effect from 1st June 2004. The new rules allow foreign investors to establish joint ventures with permitted Chinese parties to engage in product distribution and trading of products. The rules allow for the foreign party to increase its ownership to 100% after 11th December 2004 or to establish after this date Wholly Foreign Owned Enterprises ("WFOE"). It does however not allow for branch setups. The rules are also nationwide.

The rules cover Wholesaling, Commission Agents services, Retailing and Franchising. Franchising is significant in its nature in that it allows officially for the first time the sale of products, use of tradename or business systems in exchange for fees or royalties.

LehmanBrown will be issuing a special commentary report on the new regulations after discussing the implementing regulations and interpretations of the laws with relevant government bodies (at both provincial and local levels). It is anticipated that such discussions will provide greater insight into how the new regulations will be implemented in practice.

Generally speaking the new regulations offer the following:

稅

services@lehmanbrown

Professional Services

Taxation

Financial Accounting

Management Solutions

Business Management

Corporate Restructuring

1. Reduction in minimum capital requirements
2. Simplified approval procedures
3. Reduced investor qualifications
4. Possibilities for longer operating terms
5. Greater scope of business (e.g. franchising)

The rules also reference the Closer Economic Partnership Arrangement ("CEPA") between China and Hong Kong and its equivalent with Macau, which allows Hong Kong investors to establish trading WFOE's from 1st January 2004.

As the new regulations have recently been promulgated, it is expected that Guidelines for Implementation regulations will be released shortly. This should provide provincial and local regulatory bodies more guidance and clarity on issues such as operating terms, capital requirements, taxation implications.

It is noted that restrictions still remain in certain areas such as the tobacco, media, motor vehicles, pharmaceuticals, pesticides and chemical fertilizers, processed and crude oil, which may be subject to investment limitation caps and business scope restrictions.

Chinese Multinationals to be Allowed Greater Autonomy to Operate Forex Funds Overseas Operation

Wei Benhua, deputy director of China's State Administration of Foreign Exchange (SAFE), said at the end of May that SAFE is drafting rules allowing qualified Chinese multinational companies to have greater autonomy in using their own forex funds for overseas operation.

This would expand the investment channels and diversify investment risks while better supporting overseas enterprises, said Wei Benhua at an international forum on Chinese enterprises "going global".

According to Wei Benhua, China has a steadily growing foreign exchange reserve and enjoys a favourable balance of international payments. Under the prerequisite of controllable risk and prudent supervision, it is not only feasible, but also necessary, to appropriately relax foreign exchange control for capital accounts and allow qualified Chinese multinational companies to use their own forex funds to support overseas operation.

The shortage of working capital funds and the high cost and harsh terms of overseas financing have become major problems urgently awaiting solution for Chinese enterprises "going global".

Under the existing administrative framework, overseas companies can only gain financial support from home through capital increases by domestic investment entities. This involves complicated procedures and cannot effectively address the fund flow shortage. Thus, many Chinese-funded multinationals have requested that they be allowed to extend loans to their overseas operations from their forex funds.

China's favourable balance of international payments, stable RMB exchange rate and abundant foreign exchange reserve have created satisfactory conditions for the further implementation of the development strategy of "going global", said Wei Benhua. (Source: TDCtrade.com)

LehmanBrown comment: More and more Chinese companies are seeking to expand their operations overseas. Though some expansion is through green field setups, the majority is through acquisition of business or brands. The later is particularly relevant, as Chinese companies own established international or specific country known brands, which can be brought to the Chinese market place.

增值税

"Zeng Zhi Shui"

(Value Added Tax)

营业税

"Ying Ye Shui"

(Business Tax)

11 financial and trade laws and regulations take effect

It's a day of milestone for China's funds business. On June 1 2004, China's Securities Investment Fund Law (hereinafter referred to as Fund Law), along with other ten financial and trade laws and regulations, takes effect. It will have far-reaching significance for China's capital market, analysts believe, according to Tuesday's People's Daily.

The law includes 12 chapters with 103 articles. Hot discussions were focused on whether it should be specially designed for fund and involve private placement, as well as how fund should be defined and structured, before the law was finally passed on October 28, 2003.

Sources from executives of China Securities Regulatory Commission, the industry's watchdog, released that relevant regulations are basically planned to be issued in batches starting from mid-June. The package to detail implementation of the law will include 6 regulations on the management of fund companies, fund operation, fund information disclosure, fund marketing, fund executives, and fund trusting bank. Other rules to be made public will deal with preparation and release of report on fund portfolio, annotations in statement of account, annual reports, and announcement of public offering.

The other 10 important laws and regulations governing the financial and trade sector in China to take effect on the same day are as follows: Interim Regulations on Insurance Assets Management Companies, Trial Guide on Risk Control of Insurance Capital, Anti-dumping Rules, Anti-subsidies Rules, Safeguard Measure Rules, Management Regulation on Foreign Investment in Commercial Sector, Management Regulation on Foundations, Management Regulation on Port Operation, Management Regulation on Foreign Investment in International Ocean Shipping, and Management Regulation on Legal Advisories for State-owned Enterprises. *(Source: News Guangdong)*

LehmanBrown Comment: These rules are significant in that they open up further certain markets to foreign investment and also provide better more clarify an d guidance from previously. The Fund Law is also significant as it expands the area for new services and products within the financial industry.

"Providing an alternative in China"

insights@lehmanbrown provides updates of the latest business news, taxation and accounting regulations in the People's Republic of China. It is designed to provide you with interesting and informative information to assist in your dealings with China or any China-related issues that you may encounter. If you do not wish to receive this newsletter, we have provided an [un-subscribe](#) facility below.

LehmanBrown also provides a monthly newsletter [Peeling the Onion](#) which investigates certain topical issues affecting businesses in China, particularly for those companies and individuals with operations in the PRC, or looking to establish a presence in-country.



Recent editions include:

► [Due Diligence in China](#)

- ▶ Transfer Pricing Strategies in China
 - ▶ Business Fraud in China
 - ▶ Corporate Valuations in China
 - ▶ Crisis Management in China
- ▶ China's Changing Tax Environment
 - ▶ Internal Controls in China
 - ▶ Establishing an SME in China
- ▶ Managing Your China Business Under SARS
 - ▶ Treasury Management in China
 - ▶ Banking in China
 - ▶ Mergers and Acquisitions in China
- ▶ Bridging the Accounting Standards Gap in China
- ▶ The Changing Role of CFOs and Accountants in China
 - ▶ Transfer Pricing Investigations...When not if!

You can subscribe to these newsletters through our website: www.lehmanbrown.com

Or you can visit the full LehmanBrown library at: www.lehmanbrown.com/library.htm

©

2004 LehmanBrown. This newsletter is intended to be used for news purposes only. It should not be taken as comprehensive financial advice, and LehmanBrown will not be held responsible for any such reliance on its contents.