

Statutory audit of financial statements of Foreign Invested Entities in China

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According to the People's Republic of China (PRC) Company law and relevant legislations, all Foreign Invested Enterprises (FIEs) such as Wholly Foreign Owned Enterprises (WFOEs) and Joint Ventures (JVs) are required to prepare their annual financial statements, including balance sheets, income statements and cash flow statements for their annual PRC statutory audit. Representative Offices (ROs) are also subject to annual statutory audit. An annual statutory audit can only be performed by a firm of Certified Public Accountants (CPAs) registered in the People's Republic of China. FIEs can only distribute and repatriate their profits or dividends back to their home country after completion of their annual statutory audits and settlement of all relevant tax liabilities.

FIEs are governed by the Chinese Accounting Standards for Business Enterprises (ASBEs) and the Accounting Regulations for Business Enterprises (ARBEs), and there are no basic differences between standards for domestic and foreign enterprises. FIEs, including their legally responsible person, shall take full responsibility for the truthfulness, legitimacy and completeness of the financial statements.

When performing the statutory audit, the CPA shall observe the Chinese Independent Auditing Standards (CIAS) promulgated by the Chinese Institute of Certified Public Accountants (CICPA). The objective of a statutory audit is for the CPA to express an opinion on whether the financial statements fairly present, in all material respects, the company's financial position as at year-end, the results of its operations and its cash flows for the year, in accordance with the requirements of both ASBEs and ARBEs.

In China, the accounting year is the calendar year, i.e. 1st January to 31st December. After completing the annual statutory audit, the annual filing process, which is also termed as "Joint Annual Inspection" is required. This process involves the submission of a statutory audit report, including but not limited to, the audited financial statements, tax examination report and foreign exchange examination report, to the various government authorities, as required under Chinese legislation. The annual filing process is required for the purpose of renewing business licenses and relevant certificates.

The filing deadlines vary from April or May of the following year. For example, 2007 audit reports should be filed at the latest by April 2008 whilst 2008 audit reports should be filed at the latest by May 2009. The statutory filing deadline is indicated in an annual announcement issued by the relevant government authorities however, it is normally announced after the year-end. This means that performing the statutory audit is required before the statutory deadline.

Several government departments conduct Joint Annual Inspection, including the Administration for Industry and Commerce, Finance Bureau, Tax Bureaus, Administration for Foreign Exchange (SAFE) and Customs Bureau.

For further professional advice on preparing for and complying with 2009 statutory audit

and year end requirements, please contact LehmanBrown's Professional Services Department on 0086 (0)10 8532 1720 or beijing@lehmanbrown.com