Hong Kong's Role
Your China Market Entry & Strategies

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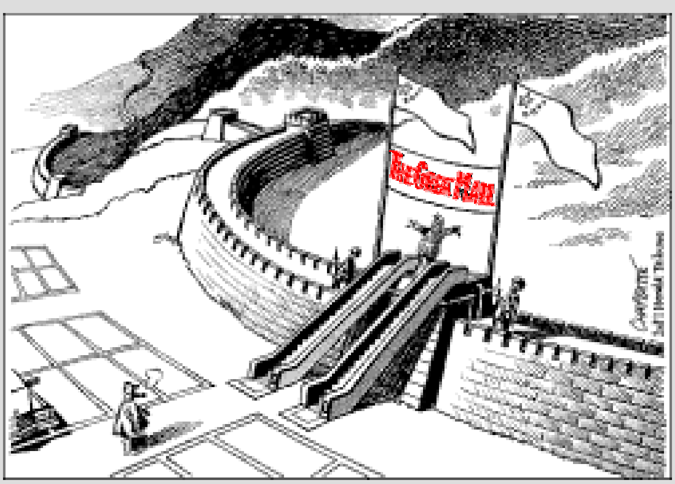
Welcome to China!!!



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China – Market characteristics

- Moving towards more transparent / open market
- Highly fragmented market
- Fast changing, dynamic market
- Guanxi with local authorities
- Growing consumption power – the emerging middle class
- Change of multi-national firms' strategic approach – from exploration to penetration

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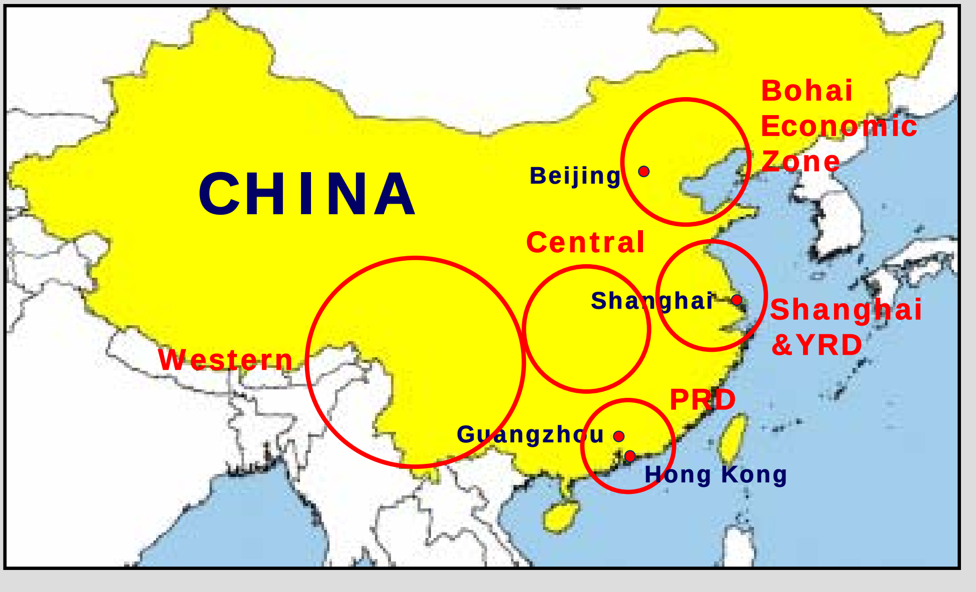

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Issues to consider – entering China

- **1st question - why China?**
- Perform industry analysis
- Identify entry mode
- Understand regulation regime
- Understand regional characteristics
- Identify competitive advantages
- Focus on positional advantage
  (e.g. to achieve lower cost & superior customer value)

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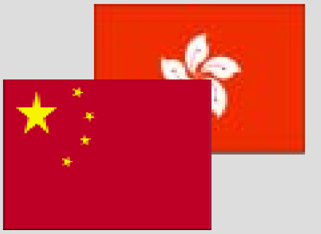
China / HK DTA*



covers

- in China
  - individual income tax and foreign investment enterprise income tax
- in Hong Kong
  - profits tax, salaries tax and property tax

* Double Tax Arrangement

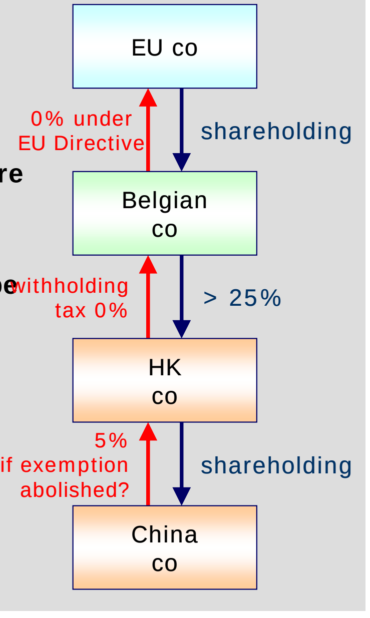
China–Hong Kong DTA
favourable withholding tax rates

taxable item	non-treaty rate	normal treaty rate	favourable treaty rate Hong Kong
dividends (1)	- 10% for companies - 20% for individuals	10%	**5%**
interest	- 10% for companies - 20% for individuals	10%	**7%**
royalties	- 10% for companies - 20% for individuals	10%	**7%**
capital gains tax (on transfer of shares)	- 10% for companies - 20% for individuals	10%	- **0% (if < 25%)** - **10% (for all other cases)**

1) Currently after-tax dividends from an FIE are exempt from withholding tax. However, this exemption is likely to be repealed under tax unification.

Benefits of not investing directly into China

- **Belgium / HK DTA**
- **China / HK DTA**
- **if profits in the foreign invested enterprises are repatriated in form of dividends it is possible that only China primary tax is payable**
- **gains on disposal of shares in the FIE would be taxed in China but at Hong Kong level there would be no capital gains tax**
- **flexibility of shareholding structure**
- **Hong Kong – may tap into benefits offered under CEPA made between Hong Kong and China**



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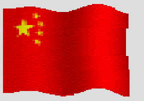
China tax regime



- Foreign Enterprise Income Tax : 33% → 25%
- Individual Income Tax : 5%~45%
- Business Tax : 3-20% of turnover
  : normal rate : 5%
- VAT : 17% normal taxpayer
  : 4 or 6% small scale taxpayer
- Capital Gains Tax : 10% withholding for foreign sellers
  : 20% for individuals
  : 33% for corporations
- Consumption Tax : 0~45%
- Deed Tax : 3~5%
- Land Appreciation Tax
- Customs Duties

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China structures

- rep office
- JV
- WFOE - wholly foreign owned enterprise
  - manufacturing
  - servicing
  - Foreign Invested Commercial Enterprise (FICE)

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China structures – setting up a WFOE

- **minimum capital requirement**

WFOE	RMB30,000 (EUR3,000)
FICE – wholesale	RMB500,000 (EUR50,000)
FICE - retail	RMB300,000 (EUR30,000)

- **contribution** — cash 30% - non-cash 70%
- **debt-to-equity rules** — 70:30 – 60:40 – 50:50 – 33:67
- **Board of Directors** — 1 -13
  natural persons
  no resident director requirement
- **legal representative** — not necessarily a director
  not necessarily a resident

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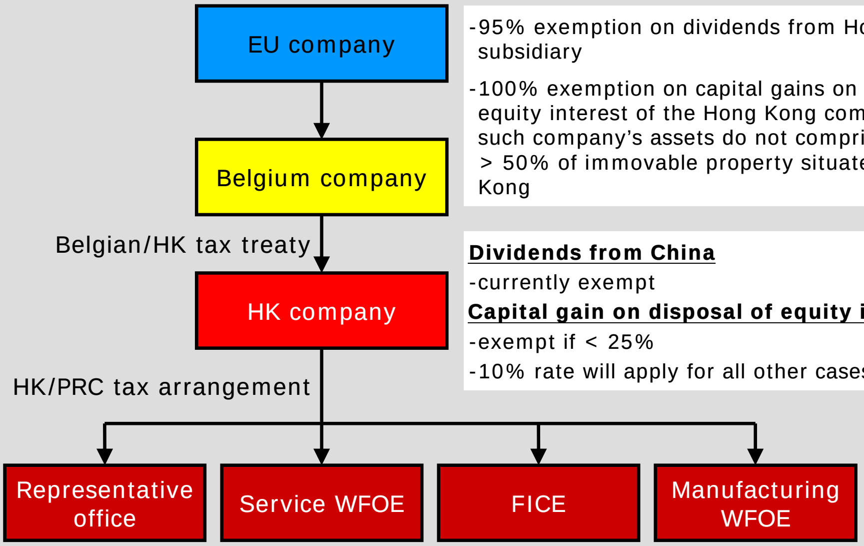
China structures



-95% exemption on dividends from Hong Kong subsidiary

-100% exemption on capital gains on disposal of equity interest of the Hong Kong company if such company's assets do not comprise > 50% of immovable property situated in Hong Kong

Dividends from China

-currently exempt

Capital gain on disposal of equity interest

-exempt if < 25%

-10% rate will apply for all other cases

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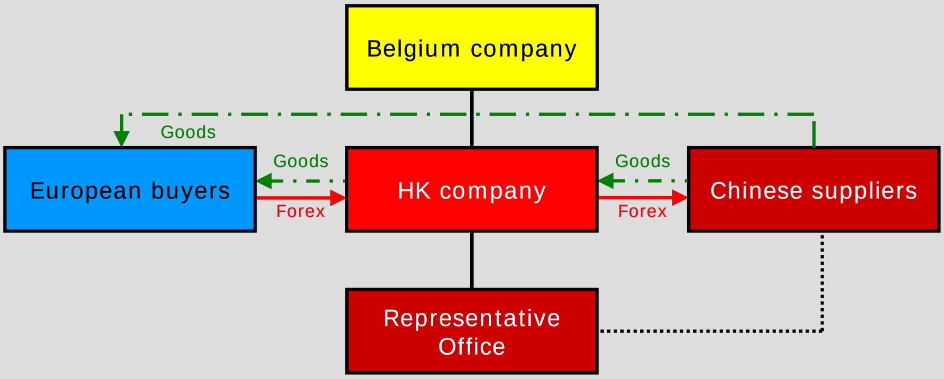
Structure: Representative Office



Limited Business Scope
- Perform market surveys & quality control
- Provide business information
- Carry out business liasion

PRC taxes
- Tax on cost-plus basis
- BT@ 5% & FEIT 25%
- Tax cost approx 8.63% of the operating expenses

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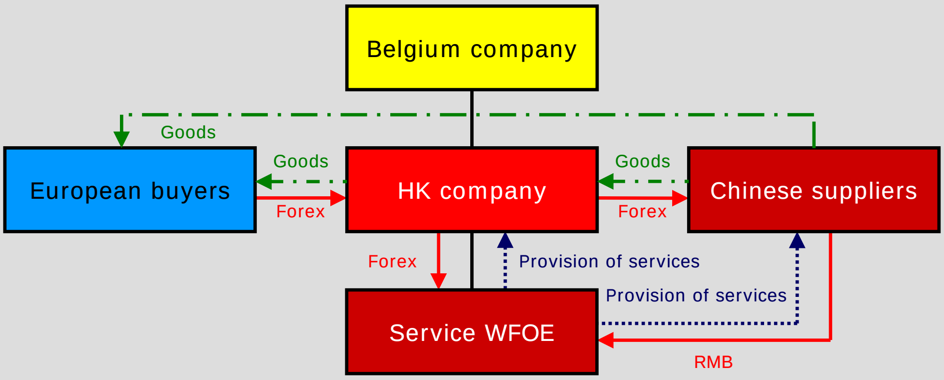
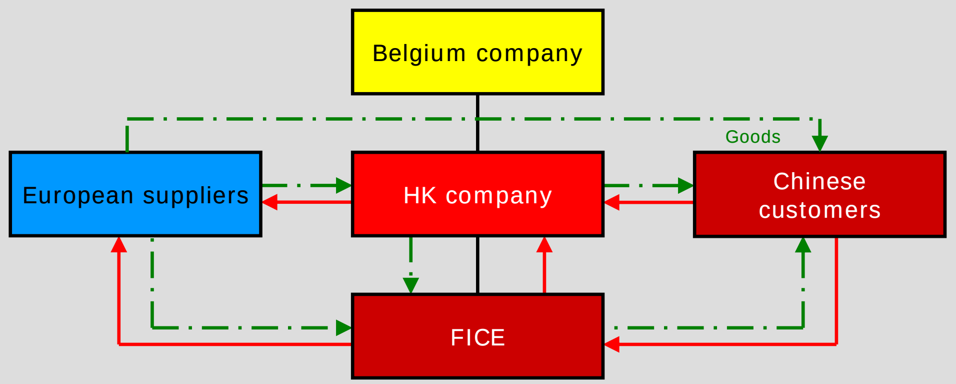
Structure: Service WFOE



Business Scope
- Take up back office support functions
- Perform quality control and inspection
- Provide sales and marketing support

PRC taxes
- BT@ 5% on service income
- FEIT@ 25% on profits

Structure: FICE



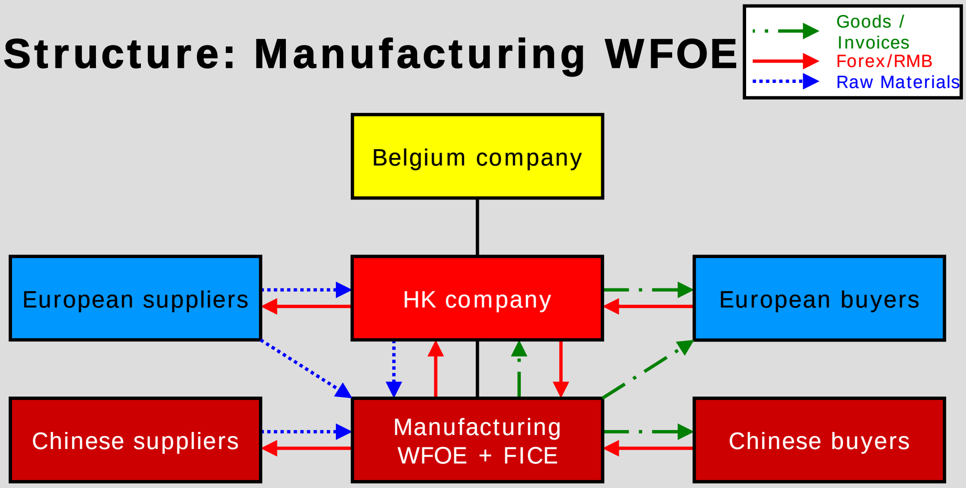
Business Scope

- Engage in full-fledged trading function
- Provide after-sales and technical support
- Perform sales and marketing, quality control functions

PRC taxes

- VAT@ 17% on local sales
- BT@ 5% on service income
- FEIT @ 25% on profits

Structure: Manufacturing WFOE



Business scope

- Production
- Local or foreign customers
- Provide after-sales and technical support

PRC taxes

- VAT@ 17% on value-added portion of local sales
- FEIT @ 25%

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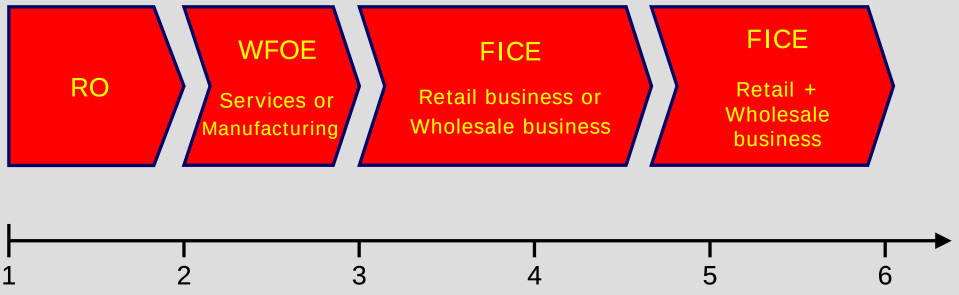
Structure: timeline for establishing the various investment vehicles

type of establishment



months

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Hong Kong companies

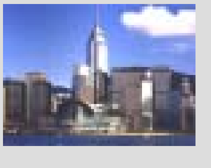
- companies can be set up easily
  - off – the – shelf
  - incorporation – 7 working days
- one man companies
  - one shareholder
  - one director
- no HK director requirement
- corporate directors / corporate shareholders
- HK secretary required
- HK registered office required
- minimum issued share capital - HK$1
- audited annual accounts and tax filing required

Advantages of a HK holding company

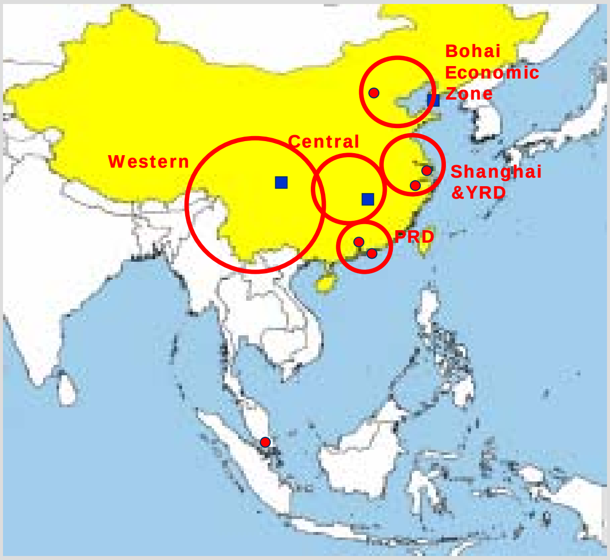
- gateway for investment in China
  - Closer Economic Partnership Agreement
  - China/HK double tax arrangement
  - Belgium/HK double tax agreement
- one more layer of protection on the interest of the parent holding company
- easier to change shareholding structure

Hong Kong facts – first class professional services

- all top 10 international accounting firms
- all magic circle law firms
- investment bankers
- private equity
- real estate agents and property consultants
- corporate services companies



Our Asian offices



Beijing
Shanghai
Hangzhou
Guangzhou
Dalian
Wuhan
Chengdu
Hong Kong
Singapore

Conclusion

- Asia still dynamic growth
- Hong Kong – preferred jurisdiction for MNC to hold the investment and finance in China
- Our Asian offices
  - Hong Kong
  - Singapore
  - China (Beijing, Shanghai, Hangzhou, Guangzhou)
- Our services:
  - Business services
  - China services
  - Corporate services
  - Securitisation and fund administration services
  - Tax services
  - Trust services

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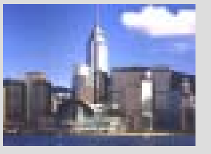
Conclusion

- HK / China DTA
- Benefits for not investing directly into China
- China tax regime
- China structures
- Advantages of using a Hong Kong holding company
- Hong Kong – first class professional services



香港貿易發展局 Hong Kong Trade Development Council

FORTIS Intertrust

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crossing borders,

creating business,

providing professional services!

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Thank you

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