

德信管理諮詢



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PROVIDING CHINA INSIGHT SINCE 1982



The Practical Challenges of Trading with China

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E. & O.E.

1. Trading with China, strategic considerations

2. Selling to China

3. Buying from China

4. Setting up operations

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TRADING WITH CHINA

A comparison

<u>Trade Between Britain and China</u>	<u>Trade Between Germany and China</u>
<p>Top British Exports into China</p> <ul style="list-style-type: none">▶ power generating machinery and equipment▶ precision instruments▶ vehicles▶ plastics▶ medical and pharmaceutical products▶ scrap metal <p>In 2009, exports to China accounted for 2.3% of all UK exports Total British exports to China (2009) = US\$8.08 billion</p>	<p>Top German Exports into China</p> <ul style="list-style-type: none">▶ vehicles; automobile and locomotive▶ chemicals▶ machinery, tools and equipment▶ electric motors▶ household appliances▶ computer, electronic, and optical products <p>In 2009, exports to China accounted for 4.5% of all German exports. Total German exports to China (2009) = US\$55.8 billion</p>
<p>Top Chinese Exports into Britain</p> <ul style="list-style-type: none">▶ electrical machinery▶ clothing and footwear▶ toys▶ furniture▶ office machines▶ fabricated metal products <p>Total Chinese exports to Britain (2009) = US\$31.3 billion</p>	<p>Top Chinese Exports into Germany</p> <ul style="list-style-type: none">▶ electrical goods▶ toys▶ textiles▶ clothing and footwear▶ plant and machinery <p>Total Chinese exports to Germany (2009) = US\$49.9 billion</p>

STRATEGIC CONSIDERATIONS

The business objectives determine the approach and type of legal presence

Business Objectives

Selling to

- ▶ China
- ▶ Asia Pacific

Services

- ▶ Tertiary industries
banking, insurance etc
- ▶ Trade
- ▶ After Sales/Maintenance
- ▶ Logistics

Manufacturing in China

- ▶ For domestic sales
- ▶ For export

Sourcing from China



Geographical Coverage

- ▶ China - overall
- ▶ China – specific regions
- ▶ Asia Pacific
- ▶ Europe
- ▶ Americas
- ▶ Africa

HAVING CLEAR OBJECTIVES HELPS TO ACHIEVE SUCCESS

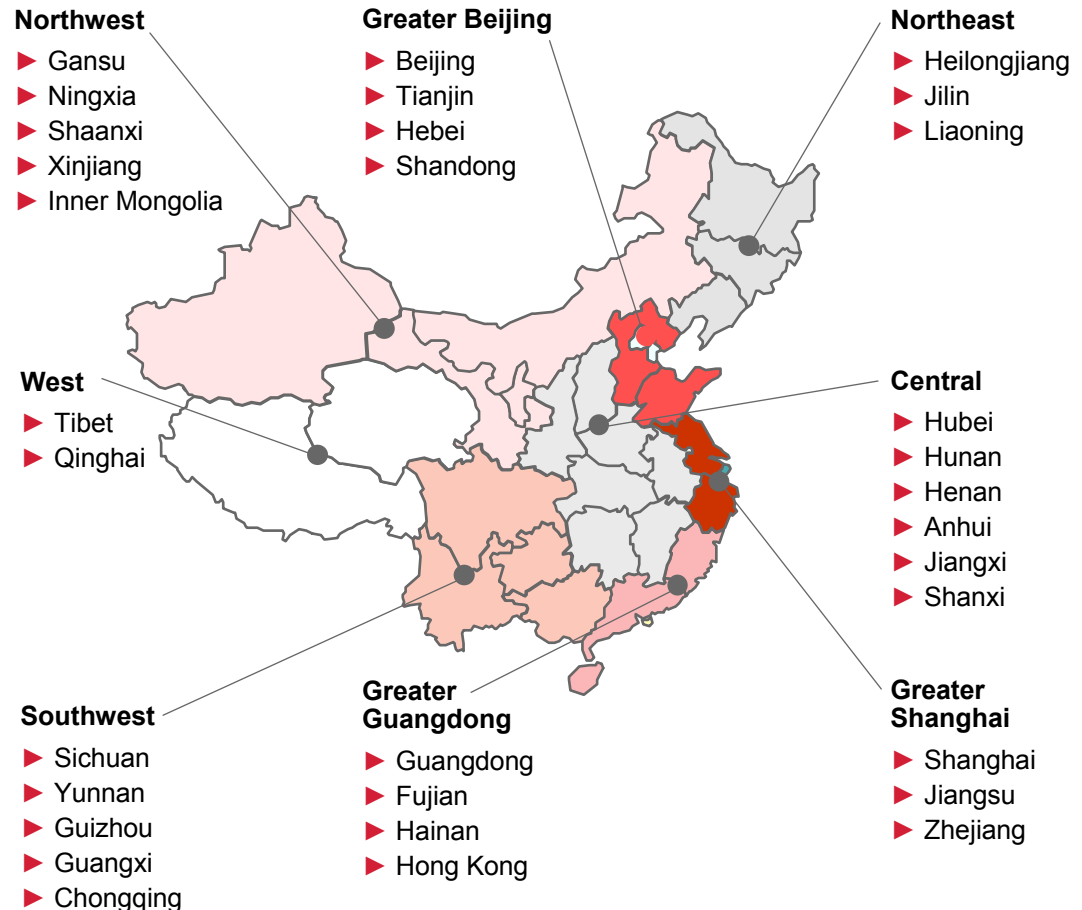
THE EIGHT ECONOMIC REGIONS OF CHINA

China is not one country; but eight different economic regions

As a result of numerous studies and interviews, Fiducia divides China into **eight economic regions**, based on the following criteria:

- ▶ Provinces
- ▶ Population and population density
- ▶ GDP
- ▶ Income per capita
- ▶ Import and export
- ▶ FDI and FDI per capita
- ▶ Infrastructure
- ▶ Dialect and culture

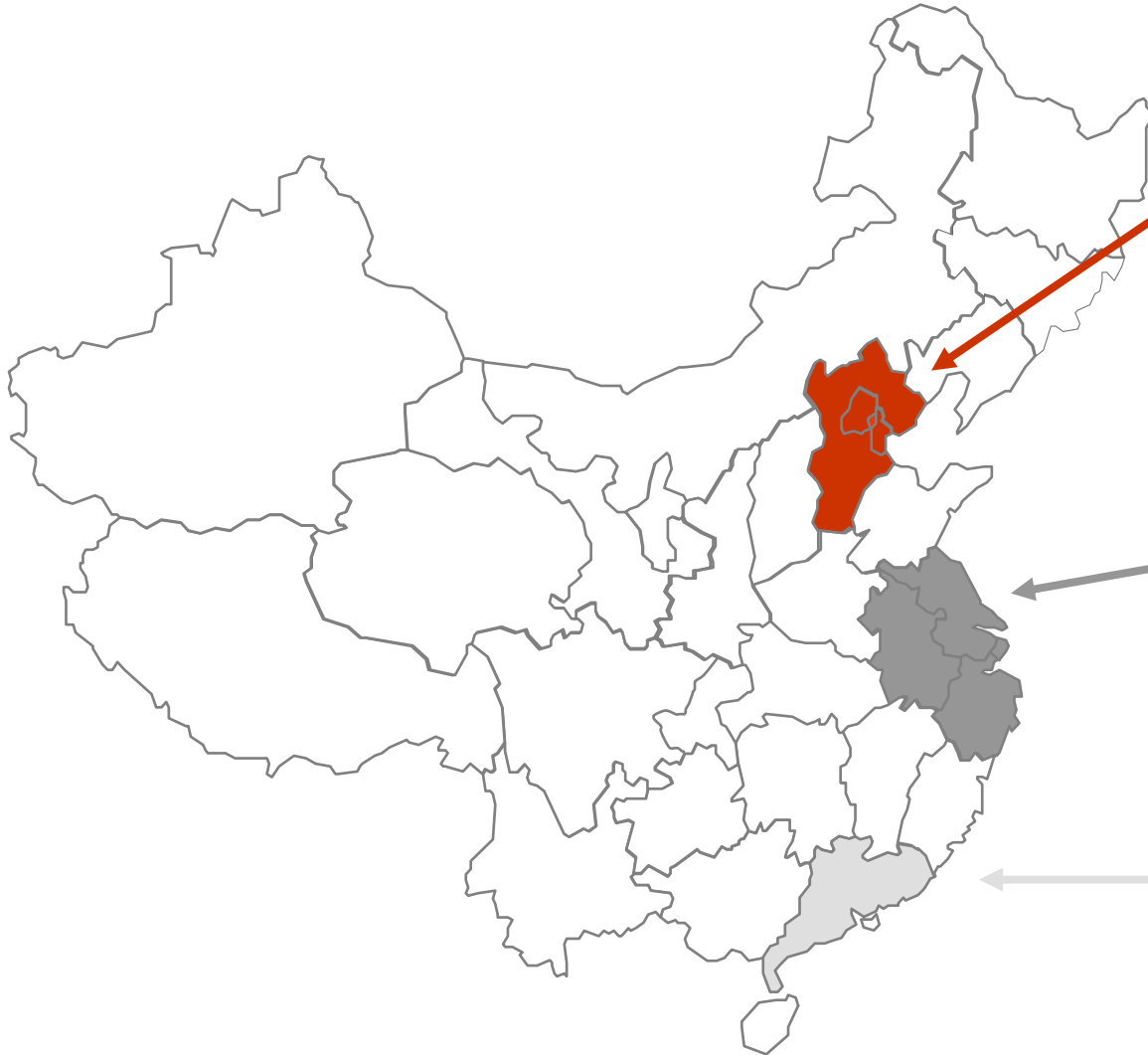
To know and understand the regional differences is the key to building a sound and successful China strategy.



Source: Fiducia Research & Analysis

CHINA'S INDUSTRY CLUSTERS

The three main economic regions



Bohai Rim Region

- ▶ Aeronautics/Astronautics (Tianjin)
- ▶ Chemicals (Tianjin)
- ▶ Electronics and Telecom (Beijing)
- ▶ Fasteners (Handan)
- ▶ Medical (Beijing)
- ▶ Rubber (Hengshui)
- ▶ Steel (Cangzhou)

Yangtze Delta Region

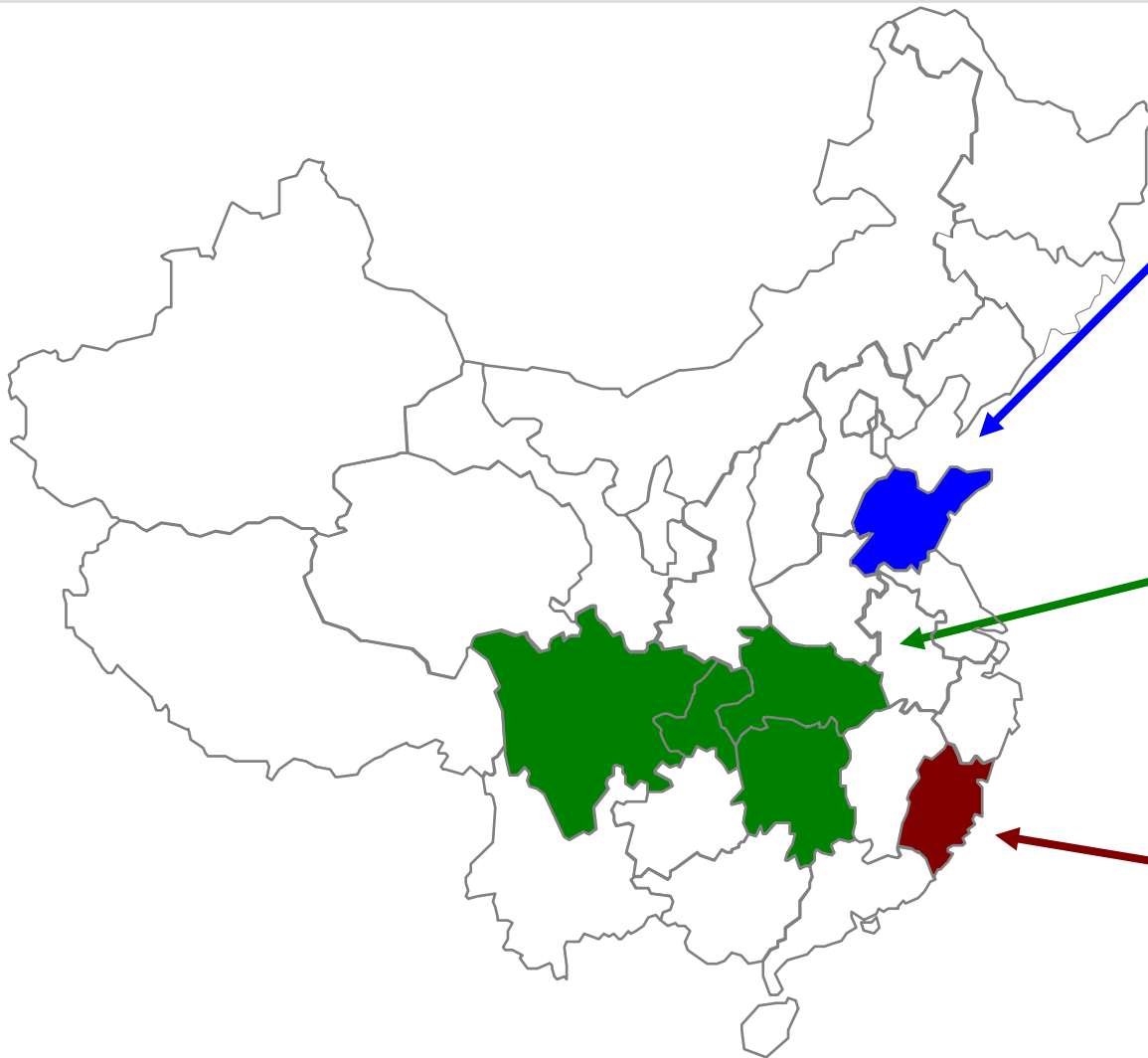
- ▶ Automotive (Shanghai, Hefei)
- ▶ Chemicals (Shanghai, Suzhou)
- ▶ Home Appliances (Hefei, Ningbo)
- ▶ IT (Suzhou)
- ▶ Steel (Hangzhou, Nanjing)
- ▶ Textiles (Wuxi, Suzhou)
- ▶ Wire and Cable (Wuxi)

Pearl Delta Region

- ▶ Automotive (Guangzhou, Xiamen)
- ▶ Hi-tech Electronics (Shenzhen)
- ▶ Kitchenware (Yunfu)
- ▶ Lighting (Zhongshan)
- ▶ Machinery (Zhongshan)
- ▶ Textiles (Guangzhou, Zhongshan)
- ▶ Toys (Shantou)

CHINA'S INDUSTRY CLUSTERS

Main Regions



Shandong Province

- ▶ Axle bearings (Linqing)
- ▶ Crop machinery (Linyi)
- ▶ Home appliances (Qingdao)
- ▶ Steel (Liaocheng, Jinan)
- ▶ Textiles (Qingdao, Weihai)
- ▶ Transport equipment (Jinan)
- ▶ Wine (Yantai)

Mid-West Region

- ▶ Aerospace (Chengdu)
- ▶ Ceramics (Zhuzhou)
- ▶ IT (Chengdu)
- ▶ Machinery (Changsha)
- ▶ Motorcycle (Chongqing)
- ▶ Pharmaceuticals (Chongqing)
- ▶ Steel (Wuhan)

Fujian Province

- ▶ Apparel (Quanzhou)
- ▶ Children's wear (Shishi)
- ▶ Jade processing (Putian)
- ▶ Metallurgy (Fuzhou)
- ▶ Plastic (Fuzhou)
- ▶ Textiles (Fuzhou)
- ▶ Zippers (Quanzhou)

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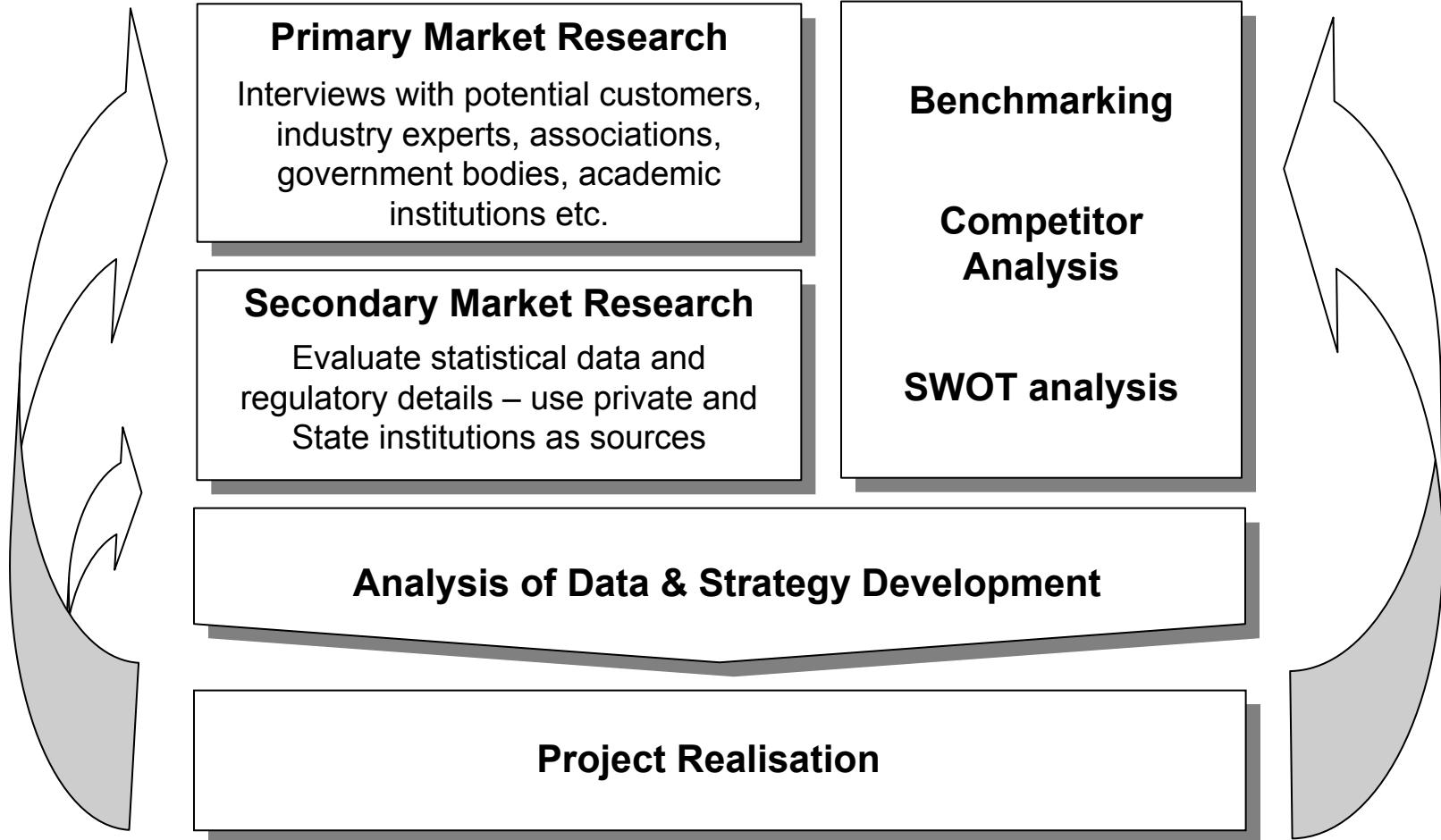
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MARKET RESEARCH & DATA ANALYSIS

“Safely cross the river stone by stone”



A PROVEN MARKET ENTRY & MARKET EXPANSION STRATEGY

A two dimensional approach based on Fiducia's "The Eight Economic Regions of China" is promising:

Approach I – Geographical Concentration

For marketing and sales activities choose;

- ▶ a region economically well developed**
- ▶ a region economically under developed**

Approach II – Divide and Conquer

**Appoint an agent to handle sales in a certain economic region.
Sales in another economic region is handled by your own office in China**

MARKET ENTRY STRATEGY

Choosing two economic regions with different characteristics

Yunnan (2009)

Area: 394.100 km²

Population: 45.71 million

GDP: US\$90.04 billion

GDP per Capita: US\$ 1,975

Major cities: Kunming, Dali



Guangdong (2009)

Area: 177,900 km²

Population: 95.44 million

GDP: US\$ 572.12 billion

GDP per Capita: US\$ 5,965

Major cities: Shenzhen, Guangzhou



BENCHMARKING HELPS TO TRANSFORM "CHINA FANTASY" INTO "CHINA REALITY"

WITHOUT BENCHMARKING

- ▶ Feeling
- ▶ Perception

- ▶ Reactive
- ▶ 1,3 billion potential customers

- ▶ Projects without risks
- ▶ Taking the line of least resistance

- ▶ Inward concentration
- ▶ Conservative base

- ▶ Sparse ideas
- ▶ Average progress

STRATEGIC THINKING

**CUSTOMER
NEEDS**

TARGETS

**INTENSITY OF
ENGAGEMENT**

**COMPETITIVE
POSITION**

**PROCESSES AND
PRACTICES**

WITH BENCHMARKING

- ▶ Market reality
- ▶ Objective judgment

- ▶ Proactive
- ▶ Regional potentials

- ▶ Genuine projects
- ▶ Decisiveness

- ▶ Concentration on customer
- ▶ New ideas

- ▶ Many options
- ▶ Breakthrough in China

SELLING TO CHINA

Practical tips

- ▶ **Fact finding: visit trade fairs in China (Beijing, Guangzhou, Shanghai, Shenzhen, Hong Kong) and Europe**
- ▶ **Efficient market analysis (primary & secondary research)**
- ▶ **Determining the geographical region. Remember the distance from Beijing to Guangzhou is equivalent to the distance from Copenhagen to Palermo**
- ▶ **Have a successful sales track record before opening an office**
- ▶ **Find a regional partner or appoint an agent , but do due diligence first**
- ▶ **Remember: China is not a market, but eight different markets**
- ▶ **Watch the market continuously to recognise changes and to respond early → demand patterns, customer expectations, competitors' activities**

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BUYING FROM CHINA

Search, analysis, negotiation – the devil is in the detail

Market Research

- ▶ Does China make the product? ▶ Geographical research
 - ▶ Visit trade fairs in Europe and in China/Hong Kong
- ▶ Reality check: Is the seller a manufacturer or a trader?
 - ▶ Check references & export track record
 - ▶ Get samples for testing ▶ Factory audit

Enquiry

Specify ▶ Product ▶ Norm ▶ Packaging ▶ Quantity

Purchase

- ▶ Negotiations ▶ Contract terms: Warranty, Payment etc.
 - ▶ Quality assurance and quality control

**Ensure product is sellable before the container
leaves China**

LOOK (OUT) FOR A RELIABLE MANUFACTURER

“Seek truth from fact”

Identify Suppliers

- ▶ New suppliers appear every day, but check their track record at an early stage.
- ▶ Finding the right supplier often takes time. Small companies are usually pretty disorganized, but they pay attention to small & medium sized buyers. Some “need” help in calculating a price, perfecting a product – but this may pay off well. On the other hand, large manufacturers always give priority to buyers with large quantities.
- ▶ Don't select suppliers based on a brochure or website – nice pictures may be far from the reality.
- ▶ Obtain customer references, talk to them.

Qualify Suppliers

- ▶ Having obtained ISO standards is no guarantee to good factory standards Therefore one needs to perform an evaluation of how manufacturing and quality processes are applied on a day-to-day basis – as a continual process. Lapses in safety and quality in Chinese products continue to be a challenge.
- ▶ Conduct on-site visits: Take the company's pulse, walk the factory floor, conduct factory audits yourself or together with a service provider.

Remember China factories manufacture on demand only, they don't carry stock.

LOOK (OUT) FOR A RELIABLE MANUFACTURER

“Seek truth from fact”

Manage Suppliers

- ▶ Specifications must be clear as to the quality standards expected and the acceptance test regime and what happens to the rejects — you don't want them to appear in the local street market if it is a branded item!
- ▶ Get the supplier to commit in the contract to certain dates: beginning of production, 50% of finished products, 100% of finished products, shipment date. Include penalty terms.
- ▶ Ensure that the supplier really understands your requirements and the product's application purposes. Consider language issues and possible misunderstandings due to culture, mismatch between your expectation and the supplier's assumptions — they may not know the customer's habit and customs. Remember “a picture is worth a thousand words”.
- ▶ Set up the right communication channels between the supplier and yourself at both management and working level. Commit to regular meetings with the supplier.
- ▶ Implement a full scale quality assurance scheme during production: in-line inspection, product testing, final inspection etc. Regular contact with the supplier including visits to the factory is useful — surprise visits may be helpful.
- ▶ Consider using third party service providers: traders, factory audit, product testing, quality control, logistics. Even if you have an office in China ensure the existence of a “four-eye” principal.

“You get what you inspect, not what you expect”

BEST PRACTICES: PAYING CHINESE SUPPLIERS

Payment Terms

- ▶ In most cases, especially if it is the first business deal, China suppliers will expect payment by L/C. Over time when you have established a working relationship and trust you may be able to switch to better payment terms e.g. D/P or D/A 30 days.
- ▶ Don't be surprised if a supplier asks for 100% payment in advance. Realise that this is negotiable. Terms such as “30% deposit, 40% during production, 30% after inspection or upon shipment” are often an acceptable middle ground for both parties – especially at the beginning of a commercial relationship.
- ▶ Keep in mind that depending on the payment terms bridging finance is needed. Banks in Hong Kong offer a wide range of trade financing including raw material financing schemes.

Currency

- ▶ Your supplier may not accept GBP and only accepts USD. Be wary if the supplier asks you to pay to a private account or to a 3rd party trading company – mostly outside China.
- ▶ Keep in mind that you can now buy in RMB even if China's currency is not convertible. This move could result in better purchase prices as the China supplier may have included a high reserve for currency fluctuation. Banks in Hong Kong offer suitable instruments and hedging facilities.

BUYING FROM CHINA

Practical tips

▶ **Use websites cautiously**

There is a magnitude of web-based matchmaking platforms (e.g. Alibaba, made-in-china) listing China manufacturers and suppliers. The service is usually free for buyers, suppliers have to pay a membership fee. The information can be overwhelming because of the sheer number of companies in China. Be cautious about whether the supplier is genuine.

▶ **Fact finding: visit trade fairs in China (Beijing, Guangzhou, Shanghai, Shenzhen, Hong Kong) and Europe**

▶ **Efficient market analysis, product search & factory qualification**

▶ **Assure the contract terms and conditions are clear, complete and understood** → product specification, inner and outer packaging, manuals, product certification etc.

▶ **Take measures for quality assurance and quality control**

▶ **Make use of service providers if you are not on location or don't have resources on-site.**

**At time of shipment goods and packaging must be in perfect condition and ready for sale
– everything else will cost additional time and money**

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LOCATION CONSIDERATIONS

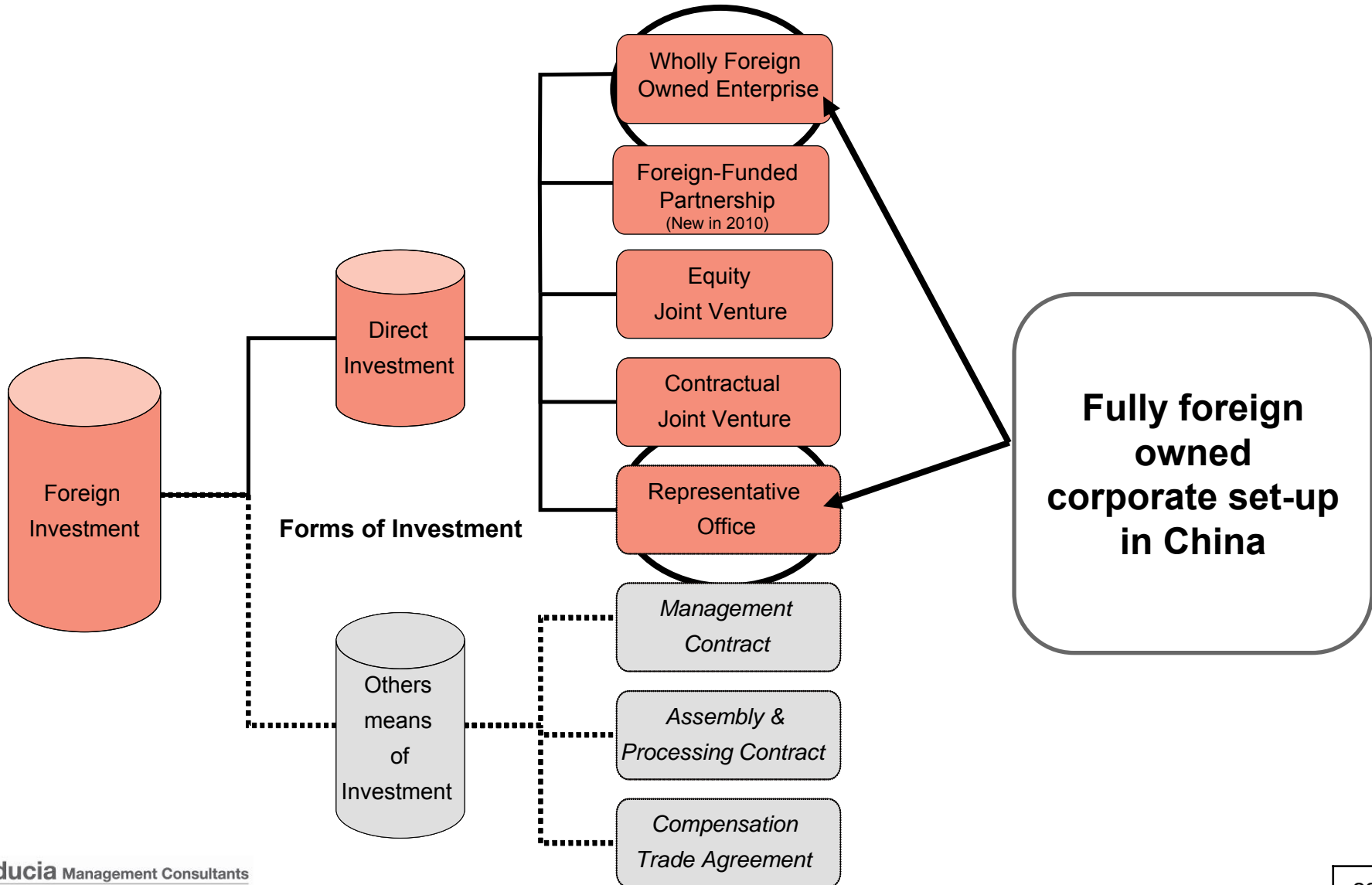
Legal

- ▶ Types of Development Zones (Free Trade Zones, Hi-Tech Zones, Special Economic Zones, Industrial Zones, Export Processing Zones)
- ▶ Preferential policies and treatments (corporation tax holidays, corporation tax rates, VAT rebates)
- ▶ Restrictions and minimums (registered capital, registered space)

Commercial

- ▶ Proximity to customers
- ▶ Proximity to suppliers
- ▶ Support from locality, local government
- ▶ Human resources
- ▶ Logistics infrastructure (Rail, road, airport)
- ▶ Utilities infrastructure
- ▶ Costs: Property; Rental; Staff
- ▶ Local agglomeration (synergies among neighbouring companies and industries)

FOREIGN INVESTMENT OPPORTUNITIES



REP. OFFICE VS. WFOE

Business Scope

Representative Office

The Rep. Office's activities are limited to the following activities:

- ▶ Coordinate activities for the parent company
- ▶ **Sales related**
 - ▶ Conduct market surveys and market research in order to collect market data
 - ▶ Contact potential customers to introduce the parent company's product and services – mailing, trade fairs, meetings
- ▶ **Purchase related**
 - ▶ Conduct product and supplier search
 - ▶ Contact potential business partners to discuss requirements, technical specifications etc.
 - ▶ Factory audit, quality control

The Rep Office is not permitted to:

- ▶ manufacture, import or export, conduct sales;
- ▶ sign purchase or sales agreements;
- ▶ receive income other than from the parent company.

Rep. Offices with large offices/staff will be subject to scrutiny by the authorities.

Wholly Foreign Owned Enterprise

- ▶ The business scope of a WFOE refers to the industries, commodities or services that the government permits a company to be engaged in.
- ▶ Each company needs to define a clear business scope and shall not engage in activities beyond its approved business scope. Otherwise the Company might be fined or lose its business license.

WHOLLY FOREIGN OWNED ENTERPRISES “WFOE”

The business scope of the different enterprises

The Business Scope of a Service WFOE is ...

- ▶ to provide technical consulting
- ▶ to provide technical services
- ▶ to provide repair services

The Business Scope of a Manufacturing WFOE is ...

- ▶ to manufacture products
- ▶ to sell self-manufactured products on the domestic and international markets
- ▶ to provide relevant technical consulting
- ▶ to provide engineering services

The Business Scope of a Commercial WFOE is ...

- ▶ to import and export goods
- ▶ to conduct domestic trade
- ▶ wholesale and commission agent (except auctions)

Certain activities e.g. import/export and trading in certain products (e.g. pharmaceuticals) require special licenses

THE HONG KONG ALTERNATIVE

Having a trading company in Hong Kong

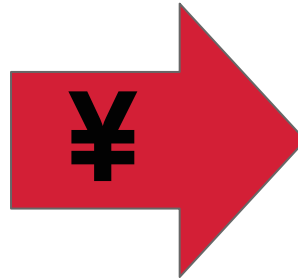
Advantages and benefits

- ▶ Sales to China: Warehousing goods in Hong Kong or China FTZ
- ▶ Sourcing from China: no hassle with VAT refund and RMB, direct invoicing to end customer, less corruption danger
- ▶ Low Tax Regime – Profits tax payable is 16.5%, salaries tax is 15%, there is no sales tax or VAT in Hong Kong. There is no profit tax applicable for profits out of offshore businesses.
- ▶ Less bureaucracy, reduced costs and risks: finance, credit risk
- ▶ Safe Environment – Legal System based on British system; Hong Kong is one of the most corruption-free economies in the world.
- ▶ Availability of Services – Banking, Logistics, Merchandising etc.
- ▶ The new RMB Trade Settlement Scheme in Hong Kong allows for...
 - Trade of goods (sales and purchases in RMB)
 - Trade of services

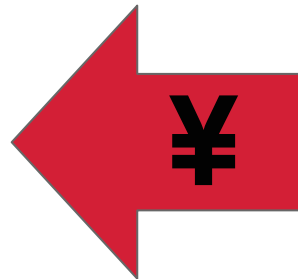
Disadvantages

- ▶ Cost – staff and office space are more expensive in Hong Kong compared to mainland China
- ▶ Proximity to the customer or the supplier – this can be overcome with the establishment of a Rep. Office

THE NEW RMB TRADE SETTLEMENT SCHEME IN PRACTICE



Trade of Goods
Trade of Services



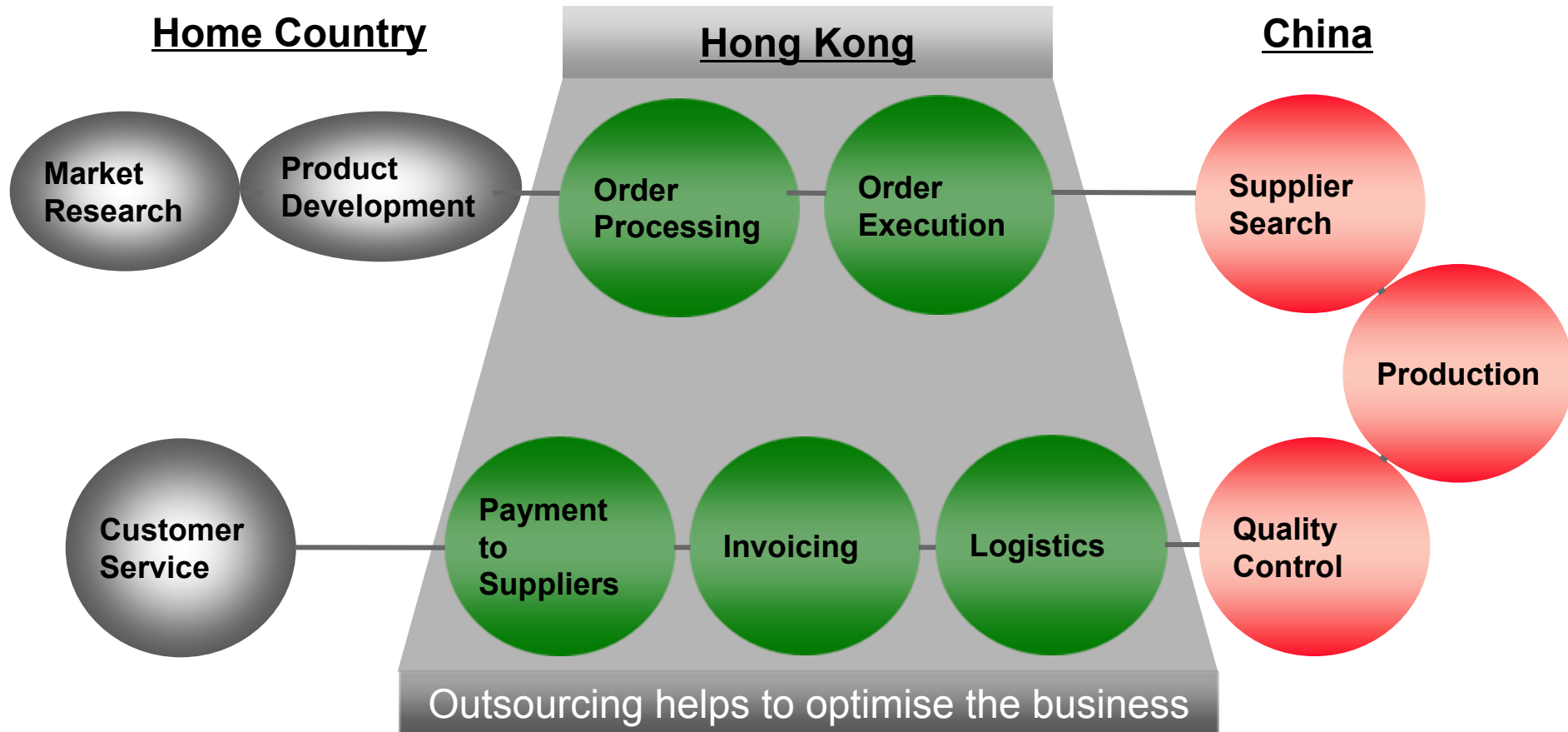
SETTING UP OPERATIONS

China vs. Hong Kong

	China	Hong Kong
Duration of incorporation	RO: about 90 days WFOE: about 180 days	Limited company 6 days
Incorporation procedure steps	14	3
Capital requirement for company formation	<u>WFOE</u> US\$ 140,000	<u>Limited Company</u> No minimum, e. g. £ 1 is sufficient
Corporate Income Tax	25%	16.5%, offshore profits are tax free
Value Added Tax	17	nil
Tax preparation and filing (hours required)	504	80

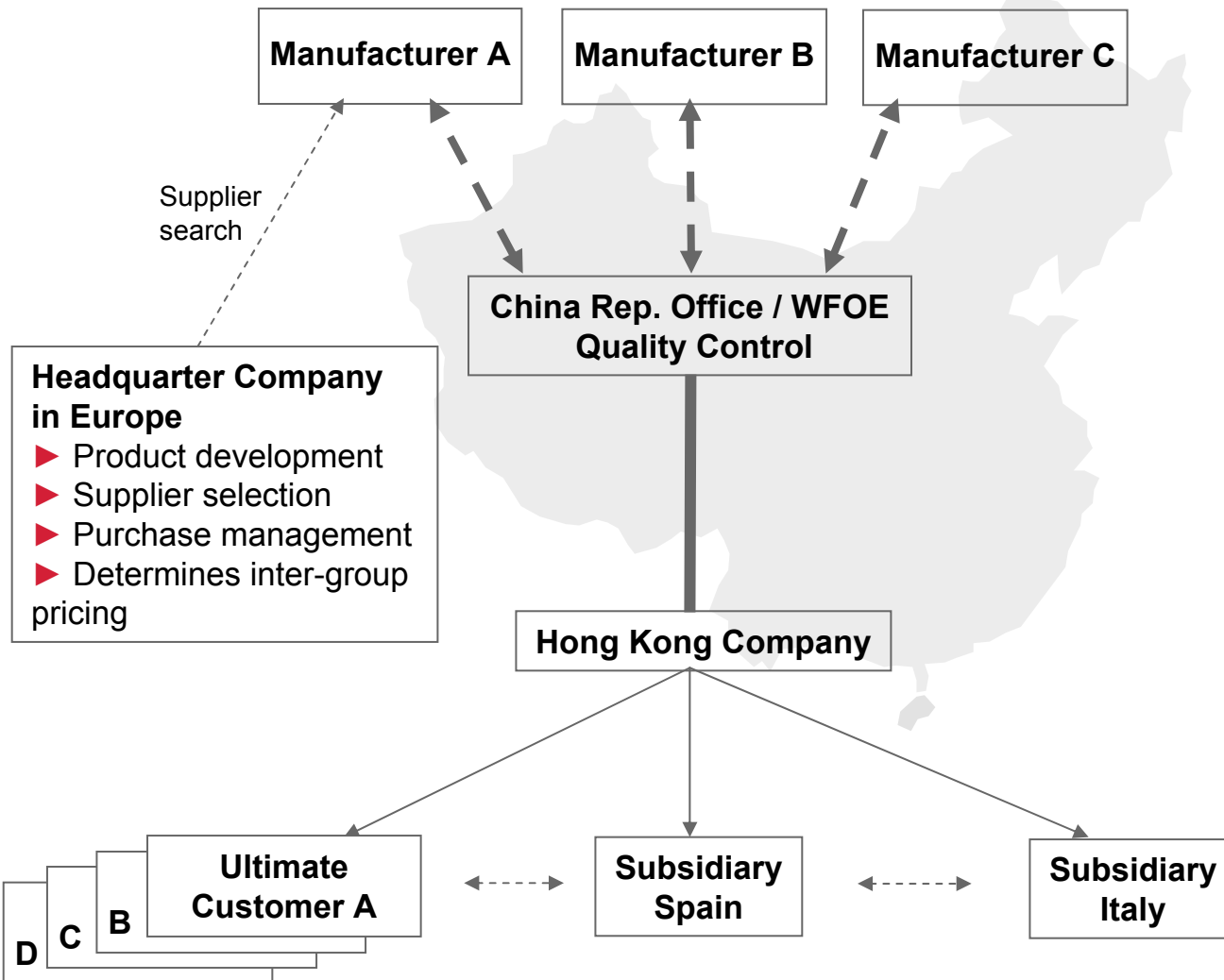
HONG KONG COMPANY AS A SOURCING VEHICLE

Typical Set up



CASE STUDY

This model has been adopted by European manufacturing & trading companies



Headquarter Company in Europe

- ▶ Product development
- ▶ Supplier selection
- ▶ Purchase management
- ▶ Determines inter-group pricing

Manufacturer can be a subsidiary or third party (make or buy)

Advantage:

- ▶ Cost savings by outsourcing production to China

Hong Kong Company:

- ▶ Deals with manufacturers and customers regarding commercial aspects
- ▶ Order processing
- ▶ Order execution
- ▶ Financial transactions and accounting

Advantages of this approach:

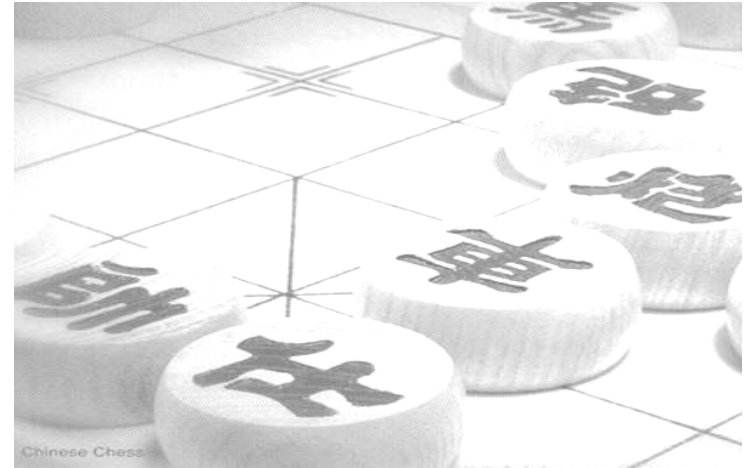
- ▶ Divide and conquer
- ▶ Minimise Risks
- ▶ Utilise the Hong Kong advantage (e.g. tax)
- ▶ Cost efficient

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CORPORATE CHALLENGES IN CHINA

Foreign companies continue to find China's business and legal environment challenging

- ▶ **Size and diversity of the country**
(distribution and logistical challenges)
- ▶ **Access to and reliability of information and data**
(e.g. financial data, statistics...)
- ▶ **Domestic trade barriers and business restrictions**
business sectors are still regulated – open and hidden
- ▶ **Importance of “Guanxi”**
- ▶ **High level of corruption**
China measures 3.6 (nearly corrupt) on the International Corruption Perception Index
- ▶ **Product piracy and IPR infringement**
Enforcement still weak
- ▶ **Lack of transparency**
(company ownership, credit worthiness etc.)
- ▶ **Local governments**
protection, hidden interests, charging unauthorized fees & taxes
- ▶ **Inconsistent enforcement of the law**
- ▶ **Hiring and retaining staff of international standard**



THE EASE OF DOING BUSINESS IN CHINA

The World Bank Report “Doing Business 2010” compares regulations in 183 economies and ranks the countries after their “Ease of Doing Business”

▶ Measured aspects are e.g.:

- Dealing with licenses
- Employing staff
- Enforcing contracts
- Paying taxes

▶ China is globally ranked 89 out of 183 economies

▶ The situation in China:

Dealing with licenses

37 procedures and 336 days for setting up a new warehouse (used example)

China ranked 180/183 worldwide

Paying taxes

35 payments p.a. and 872 hours p.a. for the preparing, filling and paying of taxes for a medium-size business

China ranked 125/183 worldwide

Global Rank of selected economies:

<u>Rank</u>	<u>Country</u>
1	Singapore
3	Hong Kong
4	USA
5	United Kingdom
15	Japan
25	Germany
89	China
133	India

CORRUPTION PERCEPTION INDEX 2009

Index 10 = low or no corruption, Index 1 = high corruption level

Rank	Country	Index
1	New Zealand	9.4
3	Singapore	9.2
12	Hong Kong *	8.2
17	United Kingdom	7.7
....
79	China	3.6
84	India	3.4

- * Corruption in Hong Kong is low due to strict anti-corruption legislation and an independent enforcement agency named ICAC (Independent Commission Against Corruption) which was set up in established in 1974 by then Governor Murray MacLehose when Hong Kong was under British rule.

A RAPIDLY CHANGING ENVIRONMENT

What keeps China managers awake at night?

The Constantly Changing Market Environment

- ▶ Sales: in the past Western companies succeeded in selling to China what they wanted to sell. Now Western companies increasingly are only be able to sell what the Chinese customer wants to buy.
- ▶ Purchase: cost increases e.g. wages prompt suppliers to postpone or even cancel existing orders

Human Resources

Recruitment, remuneration, retention, personnel development

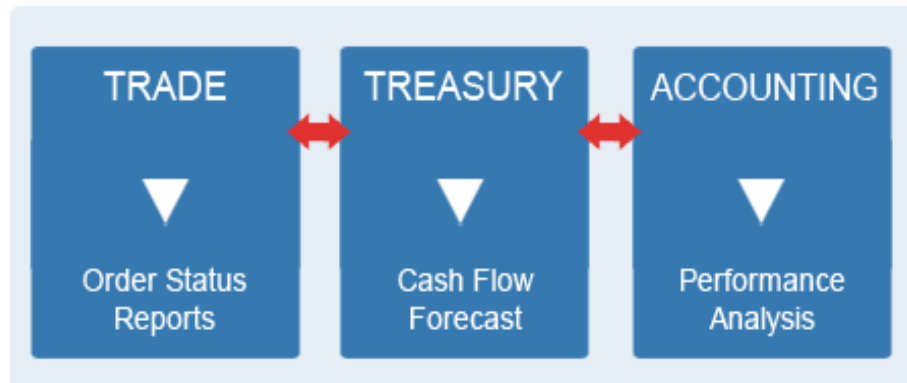
Finance & Controlling

A sound accounting and controlling scheme has become a priority for foreign companies in China to ensure the accurate reflection of the company's situation, to monitor the performance of offices and activities and to minimise risks.

MANAGE TRADE ACTIVITIES ACROSS CHINA EFFECTIVELY

Information tools and management tools at your fingertips

With Fiducia ERP System, dedicated staff can access, manage and control the China or Hong Kong subsidiary- **Anytime, anywhere.**



Head Office in Europe/USA

- Management
- Import Manager
- CFO / Controller

Monitor, Control
& Approval (optional)

Subsidiaries' data

Manage, Control
& Access Data

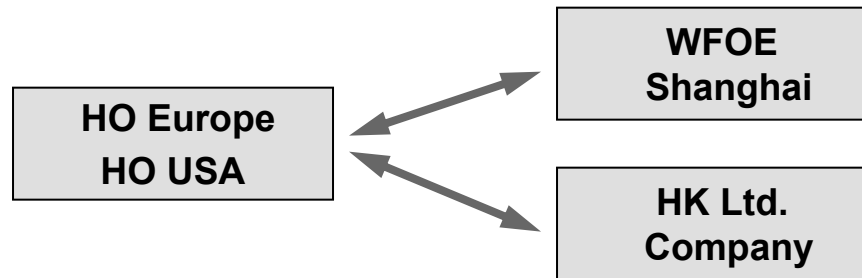
Key staff at China & Hong Kong subsidiary

- Management / CFO
- Sales Manager
- Accountant / Controller

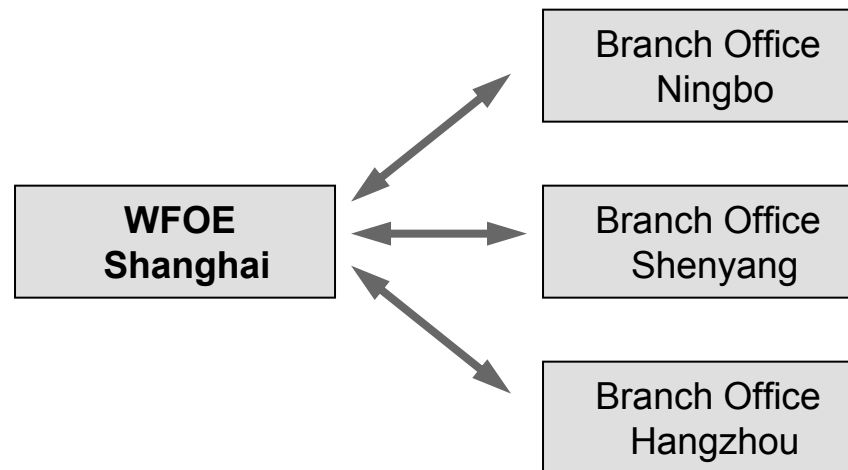
MANAGE TRADE ACTIVITIES ACROSS CHINA EFFECTIVELY

Bridging the distance and language barrier: A bilingual system (English & Chinese)

→ Between Head Office in Europe / USA and China / Hong Kong subsidiary



→ Between Head Office in China and branch offices in China



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GROWTH OPPORTUNITIES

China is an economic heavyweight – in production and consumption

Consumption



World's biggest
consumer of pork



World's largest steel
consumer



World's largest
consumer of
petrochemicals



China used **2.5 billion**
tons of coal (2006),
more than Russia, India
and USA combined.



World's largest
consumer of sporting
goods



250 million
internet users



550 million cell
phone users



Production

50% of world's cell
phone production



80% of world's
toy production



50% of world's
camera production



33% of world's TV
set production



75% of world's
bulb production



30% of world's
air-conditioner
production



25% of world's
washing machines
production



CORPORATE OPPORTUNITIES

The market continues to grow

▶ **Healthcare**

China is in the second year of an £80bn healthcare reform programme which aims to bring basic health insurance to more than 90pc of its population. (*The Telegraph*)

▶ **Pharmaceuticals**

China is projected to be fastest-growing pharma market in the world, expanding at an annual rate of 25% with sales almost doubling from £25bn in 2009 to £50bn by 2013, according to IMS, the medical market research group.

AstraZeneca was an early entrant to the China market, opening a manufacturing site in Wuxi, in Jiangsu province, in 2001. By 2009, the number of Astra employees in China had grown from 500 in 2002 to 4,000 and revenue from \$80m (£51m) to \$800m.

▶ **Wholesale and retail trade**

In the city of Qinhuangdao (4.5 hours drive from Beijing), Tesco is building a huge 400,000 ft² Lifestyle mall that include restaurants, cinemas and small retail outlets, alongside the Tesco hypermarket.

▶ **Financial services, insurance**

HSBC is considering to move its headquarters from Canary Wharf to Hong Kong as it sees Greater China as *the* key strategic region for its future growth.

CORPORATE OPPORTUNITIES

The market continues to grow

▶ **Environmental improvements**

Solar, wind power, green energy, water treatment

▶ **Real estate**

The Chinese stimulus package of November 2008 boosted liquidity, and cash-rich Chinese, facing restrictions on bringing out capital from China, have been and are still buying up many luxury properties in Hong Kong.

▶ **Education**

The University of Nottingham's Ningbo campus was established in 2004 is a joint venture partnership with the Wanli Education Group. It is the first Sino-Foreign university in China with approval from the Chinese Ministry of Education.

▶ **Infrastructure**

Rail, Road, Airport, Transportation (train, car, truck, aircraft)

By 2012 the world's fastest train, which runs from the central hub of Wuhan to the capital of China's manufacturing, Guangzhou, will extend all the way to Beijing, allowing passengers to zip from one end of China to the other in under eight hours.

▶ **Consumer goods**

Luxury goods e.g. Rolls Royce, Bentley. The new Chinese Middle-class...

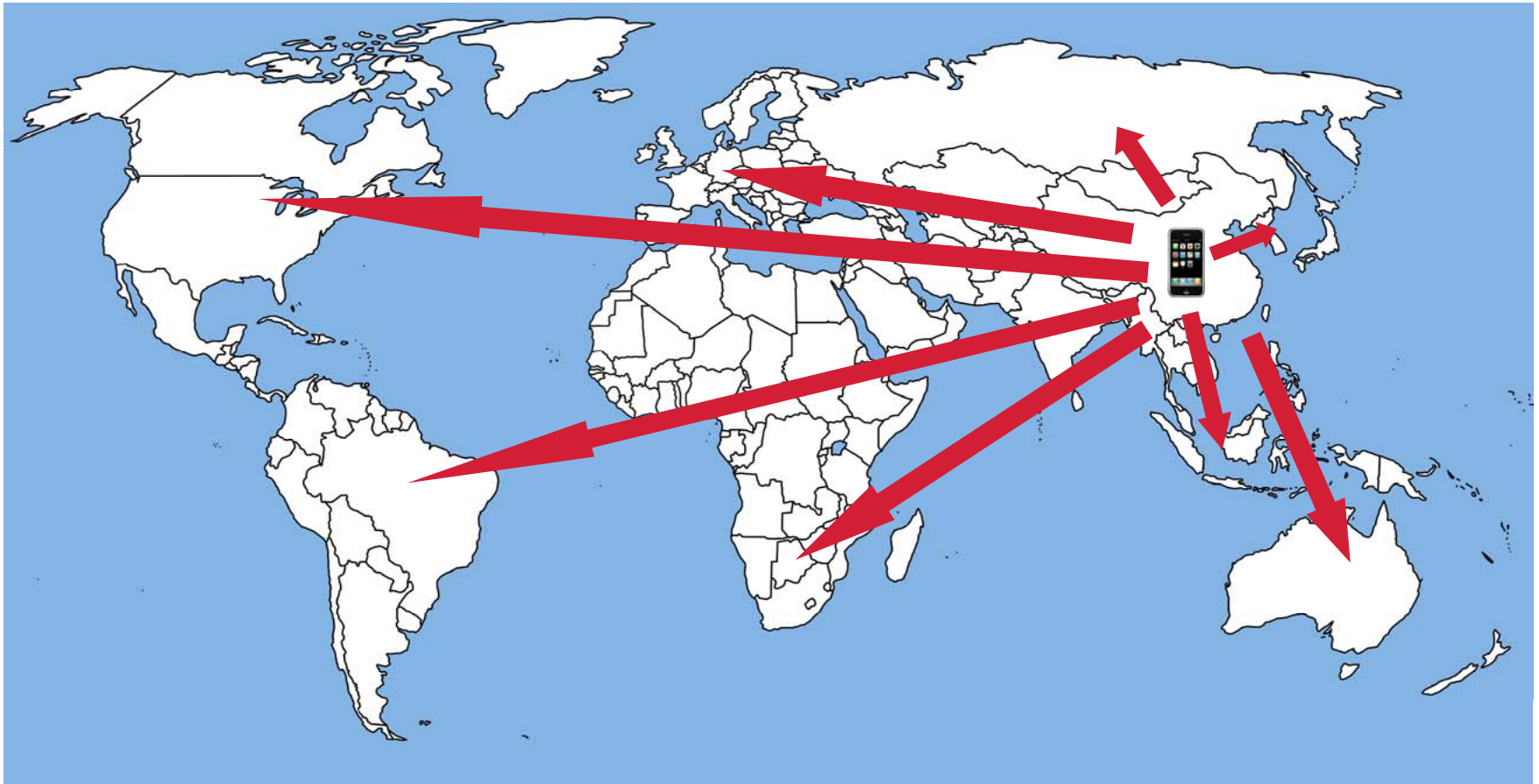
TYPICAL CHINESE MIDDLE-CLASS CUSTOMERS

	Wang Fudong (& Wife) 	Maggie Li 	Cathy Liu 	Ronald Zhang 
General Profile	<ul style="list-style-type: none"> • Age: 25. • Job: IT Engineer. • Residence: Chengdu. 	<ul style="list-style-type: none"> • Age: 25. • Job: GM Assistant. • Residence: Beijing. 	<ul style="list-style-type: none"> • Age: 31. • Job: Marketing Manager. • Residence: Shanghai. 	<ul style="list-style-type: none"> • Age: 37. • Job: Vice General Manager. • Residence: Shenzhen.
Income	<ul style="list-style-type: none"> • RMB 2,000 / month. • Bonus: 13th month. 	<ul style="list-style-type: none"> • RMB 6,000 / month • Bonus: 13th month. 	<ul style="list-style-type: none"> • RMB 15,000 / month • Bonus: 2-4 months (performance linked). 	<ul style="list-style-type: none"> • RMB 50,000 / month • Bonus: 2-6 months (performance linked).
Likes to Frequent...	<ul style="list-style-type: none"> • Internet cafes. • Games rooms (chess, cards). 	<ul style="list-style-type: none"> • Department stores. • Small shops with pirated products. 	<ul style="list-style-type: none"> • High-end shopping malls. • Yoga centers. • Beauty parlors. • Theaters. • Western bars. 	<ul style="list-style-type: none"> • Golf clubs. • Private clubs (for elite networking). • Luxury brand shops. • Wine shops.
Possessions	<ul style="list-style-type: none"> • Cell phone. • TV. 	<ul style="list-style-type: none"> • Glossy magazines. • Gym card. • Credit card. • One LV purse. 	<ul style="list-style-type: none"> • Yoga membership. • Beauty parlor card. • Designer perfume. • 5 designer dresses. 	<ul style="list-style-type: none"> • High-end villa. • Audi with a driver (paid by company).
Transportation & Traveling	<ul style="list-style-type: none"> • Inner-city transportation: Bicycle. • Traveling: Seldom travels, only been to Beijing once. 	<ul style="list-style-type: none"> • Inner-city transportation: Metro. • Traveling: Once a year to cities around Beijing. 	<ul style="list-style-type: none"> • Inner-city transportation: Taxi. • Traveling: Once a year to Hong Kong or other Southeast Asian destinations. 	<ul style="list-style-type: none"> • Inner-city transportation: Car (Audi). • Traveling: Once a year to Europe or the States with the family.

Source: InterChina Consulting

TRI-LATERAL TRADE

- ▶ **Opportunity of sourcing China-made goods and selling them to other countries**
e.g. Apple products made by Foxconn in Shenzhen



WHAT ARE THE PROFIT DRIVERS?

- ▶ **Staying flexible, being able to react to changes**
- ▶ **Optimized sourcing**
- ▶ **Creative cooperation arrangements**
- ▶ **Reducing IPR infringements by applying the black box approach**
- ▶ **Regional coverage by a healthy mixture of own office, home office, engagement of distributors or traders etc.**
- ▶ **Sales: customer training, technical service hotline, strong after-sales service**

1. Trading with China, strategic considerations
2. Selling to China
3. Buying from China
4. Setting up operations
5. Corporate Challenges
6. Corporate Opportunities

7. Appendix

TEN GOLDEN RULES

The ten golden rules for doing business in China

- 一 Assemble the right team, ensure personnel development & employee retention.
- 二 Know the market and the operating environment. Build and use information networks. Observe market developments and changes.
- 三 China is not one, but eight distinctly different markets. Look for multiple points of entry
- 四 “Seek truth from facts” → statistics, business records, “ABC Toys Manufacturing Ltd” does not mean that this company is a factory.
- 五 Be creative and flexible – like driving a car in China. “Grope one’s way, stone by stone, across the river”.
- 六 Negotiations: be patient, keep options open → the “final” offer opens the way for new negotiations. Know when to be firm.
- 七 “A picture is worth a thousand words”
- 八 There are many laws and regulations in China – the legally available solutions matter!
- 九 Avoid corruption.
- 十 Remember: you are in China to make money!

FIDUCIA MANAGEMENT CONSULTANTS

We have a 28-year track record of serving international clients in China

- 
- ▶ **Established in 1982 in Hong Kong**
 - ▶ **Professional service provider focused on China and Hong Kong**
 - ▶ **More than 70 Chinese and foreign specialists**
 - ▶ **Four China offices strategically located in Beijing, Hong Kong, Shanghai and Shenzhen**
 - ▶ **High level of local expertise and multicultural experience**
 - ▶ **Proven ability to apply international business understanding to local structures and situations in order to advise clients**
 - ▶ **28-year history of close coordination with the client leading to long-term relationships**
 - ▶ **Strong support from a large network of partners**

FIDUCIA MANAGEMENT CONSULTANTS

A multinational team with deep relevant China experience



Christina Fung

- ▶ Certified CPA (US) with MBA in international business
- ▶ More than a decade of experience providing clients with personal and corporate tax services
- ▶ Head of Fiducia's Finance & Accounting department in Hong Kong



Pinky Kwan

- ▶ Over 30 years of experience in international trading and export commodities business
- ▶ Head of Fiducia's Trade Service department with team members in Hong Kong, Shenzhen & Shanghai



Stefan Kracht

- ▶ EMBA Degree from Kellogg-HKUST
- ▶ Worked as a consultant with Bain & Co. in London and managed a trading company in Shanghai
- ▶ Head of Fiducia's China Consulting department

FIDUCIA MANAGEMENT CONSULTANTS

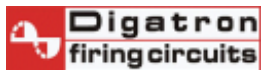
We offer a range of outsourcing & advisory services for international clients in China



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CLIENT REFERENCES

Over the years, Fiducia has worked with multinational clients from various industries



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Uncovering Corporate Mysteries Part I of III: How does VAT work in China?

CHINA FOCUS LAUNCHES A MINI-SERIES UNRAVELLING KEY TOPICS FROM THE CLOUDY WORLD OF CORPORATE CHINA.

Value added tax (VAT) is a tax on the estimated market value added to a product or material at each stage of its manufacture or distribution, ultimately passed on to the consumer. Personal end-consumers of products and services cannot recover VAT on purchases, but businesses are able to recover VAT (input tax) on the products and services that they buy in order to produce further goods or services that will be sold to yet another business in the supply chain or directly to a final consumer.

In China, VAT is administered by the State Administration of Taxation (the import VAT is collected on behalf of customs), and the revenue from it is shared between the central government (75%) and local governments (25%). VAT should be paid by enterprises or individuals who engage in:

- ▶ Selling of merchandise;
- ▶ Providing processing, repairing or assembling services;
- ▶ Importing goods.

Two Types of Taxpayer

There are two kinds of VAT taxpayer in China: Small-scale Taxpayer and General Taxpayer. Differentiation is based on the criteria of:

- ▶ Turnover of sale of goods & services;
- ▶ Condition of accounting system.

The qualification of the Small-scale Taxpayer is a) the taxpayer is engaged in the production of goods or in the provision of taxable services as its sole or principal business and its annual turnover is less than RMB 500,000; or b) the taxpayer is engaged in the wholesale or retail of goods and its annual turnover is less than RMB 800,000. Taxpayers with respective annual turnovers above these figures are eligible to register as a General Taxpayer through an application to the tax authorities, providing their registered capital is at least RMB 1 million. Interestingly, a Small-scale Taxpayer who maintains a sound accounting system and is able to provide accurate records for taxation purposes can also register.

The standard VAT rate for General Taxpayer is 17%. The current VAT rate for Small-scale Taxpayer is only 3%. So why would the General Taxpayer status be more favourable? Because: 1) Most of the domestic customers require VAT invoices as they are usually General Taxpayers themselves and can deduct their VAT paid; and 2) Small-scale Taxpayers are not allowed to deduct input VAT, so their VAT paid is part of their costs, which means lower profit margins. Overall, the General Taxpayer qualification brings fiscal advantages to a company, but challenges include difficulties in providing contracts, purchase orders and documentary proof for registration. This can be especially tough for start-ups that have yet to book revenue. Furthermore, General Taxpayers have to either buy individual VAT invoices or purchase a special VAT invoice

printing machine.

Reduced Rates or Exemptions

General Taxpayers enjoy a reduced rate of 13% that applies to the products listed below:

- ▶ Edible vegetable oil and grain;
- ▶ Tap water, heating, cooling, hot water, various types of gas, coal/charcoal products for household use;
- ▶ Books, newspapers, magazines;
- ▶ Feeds, agricultural fertilisers, chemicals and machinery.

Some items are exempt from VAT altogether, such as self-produced primary agricultural products; contraceptive medicines and devices; antique books purchased from the public; instruments and equipment imported for direct use in scientific research, experiment and education; imported materials and equipment granted/ gifted by foreign governments or international organisations.



Exempt from VAT: Chinese antique books purchased from the public

Calculating VAT

General Taxpayers need to calculate the output tax and the input tax for the current period separately. Then the difference between the output tax and the input tax shall be the actual amount of VAT payable.

Small-scale Taxpayers are taxed on the basis of the revenue derived from sales of goods or provision of taxable services by applying proper rate but Small-scale Taxpayers cannot deduct input VAT.

Below are the corresponding VAT calculation formulas:

General Taxpayer
Actual Tax payable = Output tax payable for the current period - Input tax payable for the current period
Output tax payable = Sales revenue in the current period × Applicable tax rate
Small-scale Taxpayer
Tax payable = Sales revenue × Applicable rate

CONTENT

Uncovering Corporate Mysteries Part I of III: How does VAT work in China?

Shanghai Expo German Pavilion; Exhibits by Am, Gehr and Sennheiser

"Vietnamese don't work for companies, they work for people"

Fiducia Events



Thank you!

For any queries, please email contact@fiducia-china.com