

Exploring new opportunities in China

Feb. 2, 2012

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Leading today's discussion



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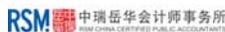
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Today's agenda

- **Western China – Next Hub for Foreign Investment in China**
- **Preferential Policies for Western China**
- **Industry Consideration – New Opportunities for Growth**
- **Limitations on Foreign Investments**
- **Q&A**



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Where are the new opportunities?

Encouraged	✓ Customs Duty Exemption ✓ Possible Local Incentives	✓ Corporate Income Tax (CIT) Preferences ✓ Customs Duty Exemption ✓ Local Financial Returns ✓ Other Incentives
Permitted	✓ Possible Local Incentives	✓ Certain part can enjoy the same preferences as Encouraged ✓ Possible Local Incentives
Restricted	Almost No Incentives	✓ Possible Loose on the Restrictive Rules
Prohibited	No Incentives	No Incentives
	Other Region	West

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Western China Overview

Population
360 million, accounting for 29% of the national total

Including

- 10 provinces & municipalities
- 2 autonomous regions
- 3 autonomous prefectures

Area
6.85 million km², accounting for 71.4% of the national total

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How can foreign investors benefit from investments in Western China?

- The current preferential policies for foreign investments in Western China mainly include:
 - CIT Preferences
 - Customs Duty Exemptions
 - Local Financial Subsidy
 - Other national and local preferences

How can foreign investors benefit from investments in the West?

- CIT Preferences
 - For enterprises engaged in industries encouraged by the state, the PRC Corporate Income Tax rate applied is lowered at 15%. (1 Jan 2011—31st Dec 2020)
- Customs Duty Exemptions
 - Customs Duty on imported equipment used for projects within the scope of state-encouraged industries and advantaged industries are exempted

How can foreign investors benefit from investments in the West?

- Local Financial Subsidy
 - Certain local governments return all or proportions of the tax enterprises paid to local finances as subsidies
- Other National & Local Preferences
 - The foreign equity proportion restriction has been loosen for foreign investment on advantaged industries and infrastructure projects

How can foreign investors benefit from investments in the West?

- Other National & Local Preferences (continued)
 - For foreign investment on advantaged industries and infrastructure projects, the proportion of fixed asset investment loan provided by domestic banks has been increased
 - Vehicle and vessel tax and house property tax in certain regions are exempted by local governments
 - local surcharges in certain regions are exempted by local governments

Notes: National guidance for foreign investments

- The upcoming “Catalogue of Encouraged Industries in Western China” which has been under construction by Chinese government and expected to be released in early 2012, will be the new and sole guiding catalogue for foreign investors to judge the qualifications for preferential policies for Western China since its release. At present, two other catalogues are served as the guidance for identifying such qualifications:

	Before Release	After Release
Foreign Investments in the west	<ol style="list-style-type: none"> 1. Catalogue for the Guidance of Foreign Investment Industries 2. Catalogue of Priority Industries for Foreign Investment in Middle and Western China 	“Catalogue of Encouraged Industries in Western China”

Other issues that foreign investors need to pay attention to

- Many of the incentives require registrations with various governmental agencies.
- The government agencies in the Western part of China may not be familiar with foreign businesses as the agents in the coastal regions.
- The local business communities may not be familiar with foreign businesses as their counterpart in the coastal regions.

How can foreign investors benefit from investments in the West?

- What do all the preferential policies mean to U.S. investors:
 - Reduced worldwide income tax liability - Although CIT may be eligible for the U.S. Foreign Tax Credit ("FTC"), FTC may not reduce a U.S. taxpayer's worldwide tax liability, such as when the U.S. investor has NOL in the U.S.
 - Exemptions on custom duties and local surcharges will reduce a U.S. investor's operating expense.

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Consideration of industries

- Which industries to consider for investment?
 - Currently, Industries in China are divided into four categories as encouraged, permitted, restricted and prohibited, in order to accomplish the goal of continued development of the Chinese economy
- Encouraged industries mainly include:
 - New energy
 - New material
 - Bio-medicine
 - High-end manufacturing
 - Information technology

Restricted Industries and Prohibited Industries

- **Restricted Industries:**
 - High pollution industries
 - High energy-consumption industries
 - Resource-intensive industries
 - Expansion of low-level and excess capacity industries
- **Prohibited industries:**
 - Industries that endanger the national security or public interests; damage the environment, natural resource or human health; etc.
 - Exploring, mining and processing of rare earth metal
 - Construction and operation of power network
 - Producing, publishing, issuing and playing broadcast and TV programs
 - Producing and issuing films

Permitted industries and special encouraged areas

- **Permitted industries:**
 - Other industries that are excluded from Encouraged, Restricted and Prohibited Industries
- **Special encouraged areas:**
 - Foreign investments in any of the following areas are encouraged:
 - R&D center
 - E.g.: The transfer of technologies that are self-developed is exempted from PRC Business Tax
 - Headquarters of foreign enterprise
 - Certain local governments offer one-time cash awards to headquarters of foreign enterprises via official identification

Newly proposed industries

Encouraged Industries:

- Vocational training
- Venture capital enterprises
- Aviation and aerospace
- Construction and operation of water treatment plants
- New high-tech glass and optics products
- Energy saving automotive parts and components
- Advanced medical equipment
- High-tech agricultural machinery

Newly proposed industries

Permitted industries (formerly restricted or prohibited):

- Distribution and importation of books, newspapers and journals
- Production of carbonated soft drinks
- Medical institutions (although limited to EJV and CJV)
- Importation of audio-visual equipment and e-journals
- Internet music services

Newly proposed prohibited industries

- Domestic express parcel service
- Construction and operation of villas

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Limitations on Foreign Investments

- What need to be considered when investing?
 - Foreign investors are forbidden to Invest in prohibited industries while there are some restrictions regarding foreign investments in Restricted Category
- Limitations—Ownership consideration
 - Limitations typically exist in the form of restrictions on foreign ownership in business of certain industries
 - According to the “Catalogue for the Guidance of Foreign Investment Industries”, foreign investment projects can be confined to :
 - Cooperative Joint Venture(CJV);
 - Equity Joint Venture(EJV);
 - Chinese party hold majority/relative majority of the shares

Limitations on Foreign Investments

- Limitations—Ownership consideration (continued)
 - **Whilst:**
 - Chinese party hold majority of the shares: total shares held by Chinese parties account for no less than 51% of all shares
 - Chinese party hold relative majority of the shares: total shares held by Chinese parties are greater than any party of foreign investors
 - **E.g. :**
 - Venture prospecting and exploitation of petroleum, natural gas are limited to CJV or EJV
 - Construction and management of metro and city light rail—Chinese partner shall hold the majority of shares
 - Construction and management of civil airports—the Chinese party shall hold the relative majority of shares



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Addressing your questions now and after today's presentation



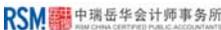

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