

CHINA LEGAL BRIEFING* 214

NOVEMBER 8 – 12, 2010



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Measures for On-Site Inspection of Listed Companies

上市公司现场检查办法

【Issued by】 China Securities Regulatory Commission

【Subject】 On-Site Inspection of Listed Companies

【Promulgated on】 April 13th, 2010

【Effective from】 May 20th, 2010

【Source】 www.csrc.gov.cn

In order to regulate the on-site inspection of listed companies, strengthen the supervision and administration of listed companies and the relevant parties, protect the legitimate rights and interests of investors, and safeguard securities market order, China Securities Regulatory Commission (hereinafter collectively referred to as the "CSRC") issued Measures for On-Site Inspection of Listed Companies (hereinafter referred to as "the Measures"). The Measures took effect on May 20, 2010.

For the purposes of these Measures, on-site inspection means the supervision and inspection, conducted by CSRC and its regional offices, of information disclosure, corporate governance, business operation of listed companies and their affiliated enterprises and institutions (hereinafter collectively referred to as the "inspectee") in the forms of review, duplication of documents and materials, physical inspection, conversation, inquiry and so forth at the places of production, operation, management and other related places.

In accordance with the Measures, the inspectors may inspect an inspectee by means of comprehensive inspection, special inspection, field visit, meeting attendance, return visit, etc. Field inspection focuses on the following aspects:

- (1) Authenticity, accuracy, completeness, timeliness and fairness of information disclosure;
- (2) Compliance of corporate governance;
- (3) Compliance of controlling shareholders and de facto controllers in exercising shareholder's rights or control rights;
- (4) Compliance of accounting and financial management; and
- (5) Other issues as determined by the CSRC.

In addition, according to the Measures, if a problem discovered during the on-site inspection involves the relevant entities and individuals, such as controlling shareholders or actual controllers of a listed company, merger and acquisition as well as restructuring of the parties, or securities service agency, the CSRC may inspect them altogether within the scope of inspection items and require the company to make an explanation and provide working papers and other relevant documents and materials.

It is worthwhile to note that the results of inspection conducted by the CSRC on a listed company do not represent the substantive judgment of its investment value. Investors should determine investment risk on their own.

Notice of the State Administration of Foreign Exchange on Adjusting the Authority for Examining and Approving Foreign Exchange Business under Certain Capital Accounts

国家外汇管理局关于调整部分资本项目外汇业务审批权限的通知

【Issued by】 State Administration of Foreign Exchange

【Subject】 Authority for Examining and Approving

【Promulgated on】 June 23th, 2010

【Effective from】 July 1st, 2010

【Source】 <http://www.safe.gov.cn>

In order to further simplify the administrative examination and approval procedures and facilitate investment trading activities, the State Administration of Foreign Exchange released “the Notice of the State Administration of Foreign Exchange on Adjusting the Authority for Examining and Approving Foreign Exchange Business under Certain Capital Accounts” (herein after referred to as “the Notice”) on June 23, 2010. The Notice delegates authority to local branches or banks to examine and approve 10 foreign exchange businesses of certain capital accounts. It took effect on July 1, 2010.

According to the Notice, the examination and approval authority of following businesses is delegated by the SAFE to the SAFE branches:

- (a) Individual cases where foreign loans from domestic enterprises exceed the prescribed proportion or amount;
- (b) Individual cases which abide by the principles of capital account administration and which have no explicit stipulations in relevant documents or business operational rules;
- (c) Approvals for current short-term foreign debt balance indicators in domestic Chinese enterprises.

The branches can delegate corresponding authority of approving the following businesses to the central sub-branches (or sub-branches) within their jurisdiction:

- (a) Examination and approval for opening, changing and terminating special guaranteed accounts as well as transferring funds for foreign investors bidding for land use rights;
- (b) Examination and approval for opening, changing and terminating special foreign exchange accounts of foreign exchange deposits and settlements for property rights transactions by foreign investors, as well as transfers and settlements of funds;
- (c) Examination and approval for domestic enterprises paying funds abroad as well as repatriating funds;
- (d) Examination and approval for withdrawals and settlements of funds for individuals within China involved in employee stock ownership or share option plans in overseas enterprises.

In accordance with the Notice, the following two businesses can be directly handled by designated foreign exchange banks:

- (a) Examination and approval of purchase or payment of foreign exchange for the payment of profit to the foreign party where foreign investors hold a stake in non-banking financial institutions (excluding insurance companies);
- (b) Examination and approval of outward remittance of overseas listing expenses from China by an overseas listed B-share company.

In addition, the Notice provides that enterprises may no longer be required to submit the “bank statements for RMB accounts in the latest five working days” in business transactions related to foreign exchange purchases for capital accounts.

Notice of the State Administration of Taxation on Several Taxation Issues Relating to the Thorough Implementation of Enterprise Income Tax Law

国家税务总局关于贯彻落实企业所得税法若干税收问题的通知

【Issued by】 State Administration of Taxation

【Subject】 Enterprise Income Tax

【Promulgated on】 February 22th, 2010

【Effective from】 February 22th, 2010

【Source】 <http://www.chinatax.gov.cn>

On February 22, 2010, the State Administration of Taxation released Notice on Several Taxation Issues Relating to the Thorough Implementation of Enterprise Income Tax Law (herein after referred to as “the Notice”). The Notice clarifies the following issues:

1. Issues relating to verifying rental incomes

In accordance with the provisions of Article 19 of the Implementation Regulations of the Enterprise Income Tax Law of the People's Republic of China (hereinafter referred to as “the Implementation Regulations”), rental income received by enterprises for giving the right to use fixed assets, packaged products or other tangible assets shall be recognized on the date the rent shall be paid by the lessee in accordance with the provisions of the contract or agreement governing the transaction. If the lease term stipulated in the contract or agreement governing the transaction extends beyond a year and a one-off rent payment shall be made in advance, the lessor may include the above recognized income in the income of the relevant year in equal instalments by stages during the lease term based on the principle of matching income with expenses as stipulated in Article 9 of the Implementation Regulations.

The provisions of this Article shall also apply to lessors that are non-resident enterprises having established institutional premises in China, made a truthful filing of tax return and paid enterprise income tax.

2. Issues on verifying income in the event of debt restructuring

In the event of debt restructuring, an enterprise shall recognize income when the debt restructuring contract or agreement takes effect.

3. Issues relating to the recognition and calculation incomes from equity transfers

Enterprises' income from equity transfers shall be recognized when the transfer agreement takes effect and the formalities for the change of equity interest are completed. The income from equity transfers should be the balance after equity replacement incomes have deducted the costs for acquiring stock. When calculating the incomes from equity transfers, an enterprise shall not deduct the amount that may be distributed to that equity interest from the retained earnings of shareholders such as the undistributed profit of the investee enterprise.

4. Issues relating to verifying incomes from equity investment, such as dividends and bonuses

Income such as dividends and bonuses received by enterprises from equity investment shall be recognized on the date the board of shareholders or the general meeting of shareholders of the investee enterprise makes the profit distribution or stock conversion decision.

When enterprises transfer their capital reserves from equity shares to capital stock, these should not be regarded as dividends or bonus incomes of the investment enterprises, and enterprises should not raise the tax basis for such long-term investments.

5. Issues on determining the tax basis after the fixed asset is put into use

If, after an enterprise's fixed asset is put into use, the full invoice has not been received because the payment for the works has not been fully settled, the amount stipulated in the contract may be included tentatively in the tax basis of the fixed asset to make provision for depreciation and adjustment may be made after the invoice is received. However, such adjustment shall be made within 12 months after the fixed asset is put into use.

6. Issues on the deduction of costs corresponding to the tax-free income

Unless otherwise specified, all the costs and charges corresponding to all the tax-free income received by an enterprise may be deducted in accordance with the provisions of Article 27 and Article 28 of the Implementation Regulations when calculating the taxable income of the enterprise.

7. Issues on the period for establishing enterprises not being counted as a deficit year

The year in which an enterprise commences production and operation shall be the year in which the enterprise begins to calculate profit or loss. The preparation charges and expenses incurred in the period in which preparation activities are conducted and before the enterprise is engaged in production and operation shall not be calculated as the loss of the current period and shall be handled in accordance with the provisions of Article 9 of the Notice of the State Administration of Taxation on Several Issues Regarding the Linkup between Taxation Matters Related to Enterprise Income Tax.

8. Issues on the calculation of business entertainment fee of enterprises engaged in equity investment business

Business entertainment fee may be deducted from the dividends, bonuses and income from the transfer of equity interest received by enterprises engaged in equity investment business (including the headquarters of group companies and enterprises engaged in venture capital investment) from investee enterprises according to the stipulated proportion.

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