

Deloitte.



Deloitte China Gateway Services

Oct 2020



Gateway services introduction

Challenges for Investment in China



How to deal with China's complex and ever-changing tax and business regulatory environment and local practices



How to design a flexible and cost efficient holding structure to meet the business needs in China as well as to facilitate future expansion and business plan adjustment, cash repatriation and etc.



How to design a Cloud-efficient business model for the China operation



Where to locate the operations and how to negotiate with the local government for the most favorable local financial subsidy package



How to deal with complex registration procedures with various government authorities



How to set up corporate governance in line with the business needs, management expectation and the Chinese legal requirements



How to handle financial reporting in accordance with the Chinese GAAP and the home countries' GAAP in a cost-effective manner in the environment of rising cost of qualified accountants in China



How to deal with various regulatory compliance requirements in the areas such as Tax, Cyber Security in a cost-effective manner

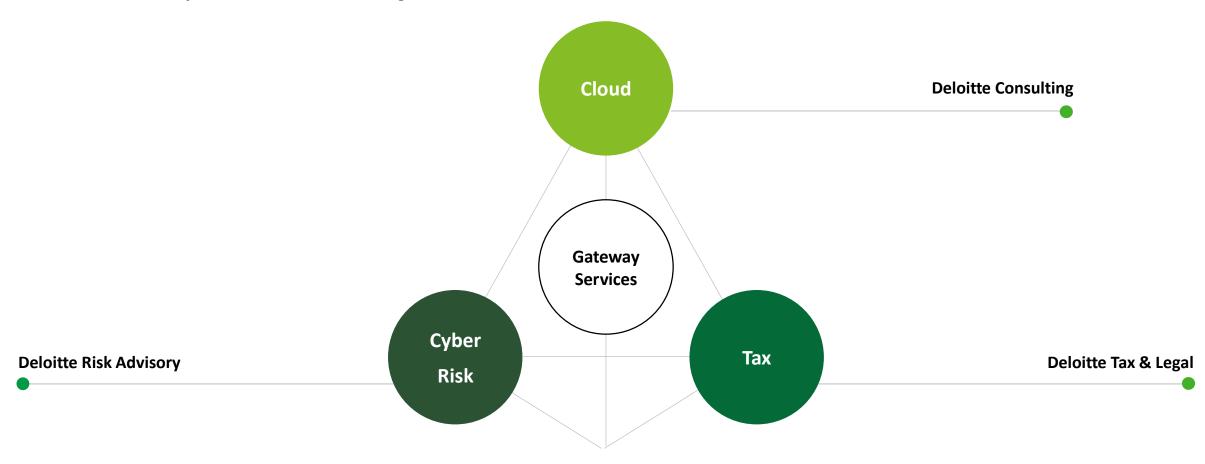


We offer our gateway services through an integrated approach to assist inbound clients in dealing with the challenges for operating their China businesses successfully

2

Gateway services introduction

The nature of Gateway services demand us to be great collaborators

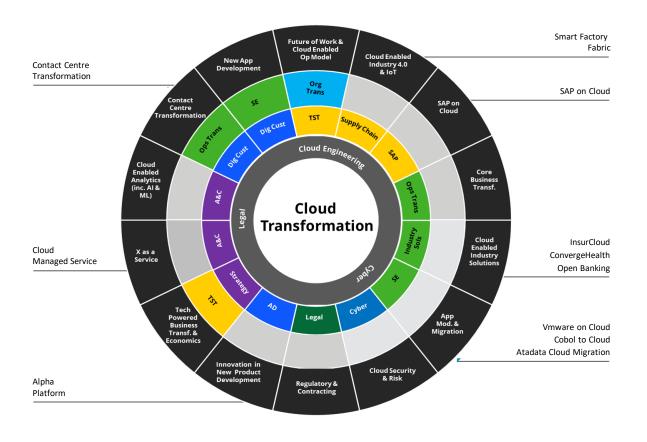


Creating tangible value for clients through planning and executing Inbound Investment strategies, integrations and separations throughout the business lifecycle

The difference from "Cloud Adoption" to "Cloud Transformation" is to aim for a cloud-based true business transformation

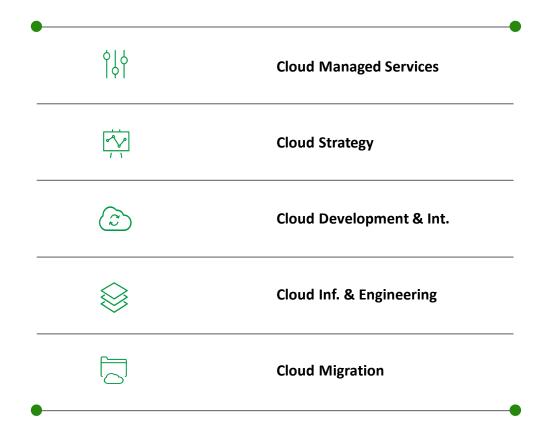
Cloud-enabled solutions to Transform an Organization

Using the power of the Cloud to deliver business transformation and solve business problems



Market Offerings to implement the required technology for change

Working with our Alliances and Strategic Partners to deliver Cloud Technology projects



Deloitte is able to support our client's journey to the cloud at any stage, along with multi-cloud strategy, services, and solutions.

Advise



Cloud Strategy & Readiness

Business Model Disruption

Cloud Strategy & Operating Model

Cloud Economics

Organizational Alignment & Readiness

Cyber Risk Assessment

Cloud Suitability & Planning



SaaS Implementation

Enterprise Resource Planning (ERP)

Customer Relationship Management (CRM)

Human Resources Transformation

Application Security

Other SaaS Domains

Implement



Custom Implementation

Cloud Native Application Architecture & Development

Orchestration & Automation

Application Development

Micro-Services

بااله

Cloud Migration

Cloud Migration Services

Cloud Platform Engineering & Implementation

Cloud Transition & Integration Management

Application Modernization

Cyber Risk Transformation



Cloud Enabled Solutions

API Management & Integration

Software Defined Data Center & Networking

DevOps

DevSecOps

Deloitte OpenCloud

Operate



Cloud Managed Services

Cloud Managed Services

Deloitte Managed Analytics Platform

BPaaS Services

Deloitte Cloud-enabled Products & Solutions

Enterprise Services

Digital DNA

Organizational & Transformation Change Management
Cloud Leadership Development & Teaming
Cloud Workforce Strategy & Planning
Marketing & Communications Support

Risk Powers Performance

Governa Business Data Sec

Governance & Regulatory Compliance

Business Continuity & Resilience Cyber Risk

Data Security & Regulation Extended Enterprise & 3rd-party Risk

Operational Enablement

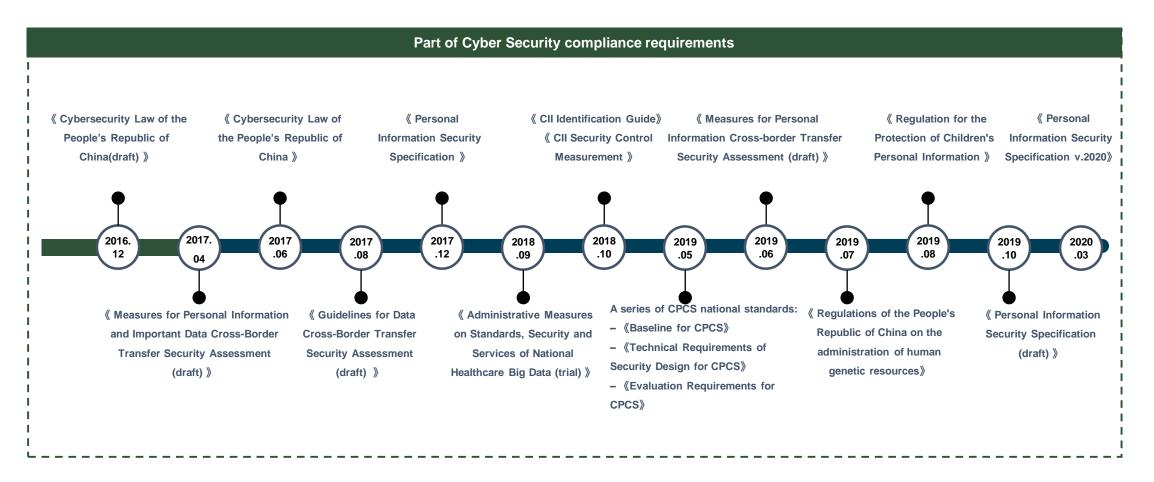
Cloud Impact to Facilities & Assets
Strategic Sourcing
Vendor Ecosystem Governance
Tax Integration Services

© 2020. For information, contact Deloitte China.

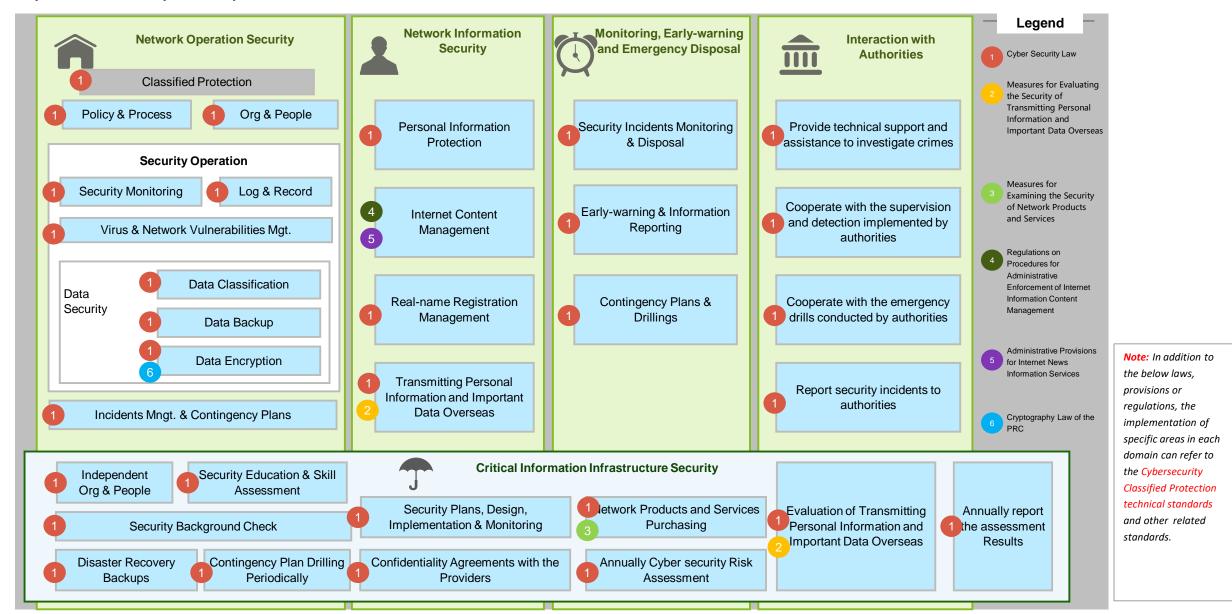
5

China Cybersecurity Compliance Challenge

Chinese government want to enhance cyber space security and citizen privacy maturity, there are a series of laws, regulations, and standards published and enacted frequently by following "Cybersecurity Law of the People's Republic of China" (CCSL). Due to space constraints, below only listed part of policies, regulations or standards,

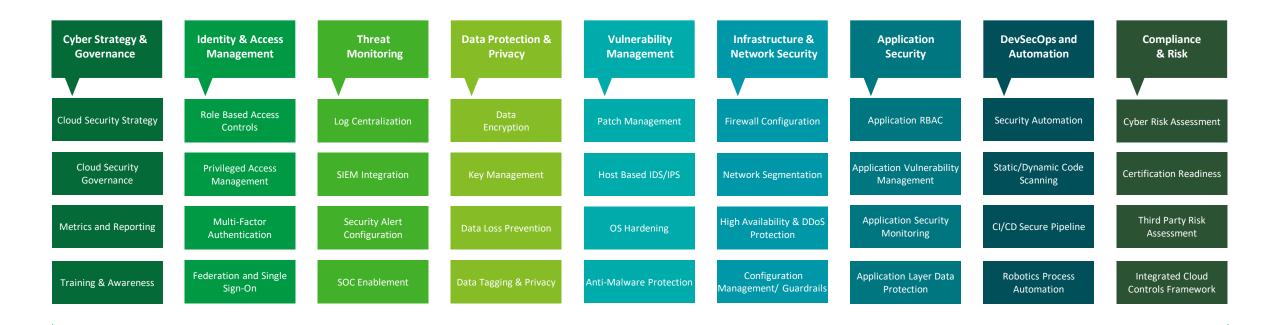


Cybersecurity Compliance Assessment Framework



Deloitte Cloud Cyber Risk Services

Our Cloud Cyber Risk Team can enable required capabilities across the entire spectrum of security domains



- Services can be customized based on client requirements and deployed in multiple ways
- Flexible pricing based on consumption or solution based services
- Services should be included as part of AWS Cloud Migration and Transformation projects
- Cyber Risk assessment typically done prior to the design and implementation of security capabilities

Recent Development of Local Preferential Policies

Expand opening-up 2017

economic growth 2018

Boost high-quality

Further expand opening-up 2020



Suspend "Clean-up" of preferential policies 2015

China's State Council issued a notice (Guofa [2015] No. 25) on 11 May 2015 that suspends the "clean-up" of preferential policies. The notice also clarifies the following with respect to preferential policies:

- Policies will remain in effect for the agreed specific term or a transitional period.
- Policies granted under contracts or agreements with local governments will continue to be valid, and any benefits that already have been granted will not be clawed back.
- The introduction of a new preferential tax policy must be approved by the State Council.

China's State Council issued a notice (Guofa [2017] No. 5) on 17 January 2017 to further encourage the expansion of opening-up and foreign investment.

- Local governments will be allowed to promulgate incentive policies regarding investment attraction within their statutory limits. It is the first time since 2014 that the central government clearly states that the local government can introduce their own incentive policies.
- The foreign capital will enjoy a more opened business environment and level playing field, and will be deregulated in such fields as services, manufacturing, and mining sectors.
- The change will lead to the intensive introduction of various types of local preferential policies and to a new wave of investment attraction.

China's State Council issued a notice (Guo Fa [2018] No.19) on 6 October 2018 that focus on the active and effective use of foreign investment to boost high-quality economic growth:

- Extensively Easing Limits on Market Entry and Improving the Freedom in Investment
- Deepening Reform of "Streamlining Administration, Delegating Power and Strengthening Regulation and Improving Services" and Improving Investment Facilitation
- Strengthening Investment Promotion and Boosting the Quality and Level of Investment Introduced
- Protecting Investment at a Higher Level and Creating a High-standard Investment Environment
- Optimizing the Layout of Regional Opening-up and Guiding Foreign Investment to Areas Like Middle and Western China

China's State Council issued the <Foreign Investment Law of the People's Republic of China> and Implementing Regulations to further expand opening-up, and shall come into effect as of January 1, 2020.:

- Encourage and promote foreign investment
- Protect the legitimate rights and interests in foreign investment
- · Regulate the management of foreign investment
- Continuously optimize the environment for foreign investment
- Promote the opening up to a higher level.

Enterprises should avoid falling into typical pitfalls in the location decision making process

Typical client mistakes

Deloitte value add



- Inexperienced in-house resources
- Insufficient stakeholder involvement
- Politics and emotions
- Communication with third parties

- Specialised CoE with dedicated SME team
- Involvement of multiple client stakeholders
 - Factual and evidence driven decision making
 - Complete confidentiality of the project



- Single factor / unidimensional focus
- Quick investigation
- Follow the crowd

- Holistic analysis of direct and indirect factors
- Thorough and rigorous assessment
- Location fit for client strategic objectives



- Generic open source data
- Outdated data
- Insufficient criticism / calibration of data
- Biased local government data

- Combination of data and insights
- Most recent insights from the field work
- Data interpretation based on local knowledge
- Independent assessment of local data



- Local business environment
- Local regulations
- Regional/local regulatory variations

- Insights into local operational risks
- Knowledge of local business regulations
- Knowledge of local regulatory specificities

What We Offer – Gateway Services

Planning

1. Tax structuring analysis

- · Advice on tax and business regulations
- Analysis of tax-efficient holding structure and China investment vehicles
- Analysis of tax-efficient business model
- · High-level TP analysis
- High-level individual income tax planning for expatriates

Site Selection & Government Incentive Services

2. Site Selection & government incentives

- Search for suitable sites and shortlist the sites for clients' consideration
- Detailed study on the short listed sites and prepare a report
- Accompany clients to visit the sites under consideration
- Assistance in negotiation for favorable local incentive package
- Assistance in securing an investment agreement

- 3. Business registration

- Apply for approval certificate and business license
- Handle post-establishment registration formalities
- Preparation of JV contracts, licensing agreements and other relevant legal documents (legal services)

Operation

4. Business process solutions

- · Set up of accounts
- Maintain general ledger
- Preparation of monthly and annual financial reporting and management reporting
- Handle A/R and A/P
- Review of expense claims
- Handle payroll
- Loan staff

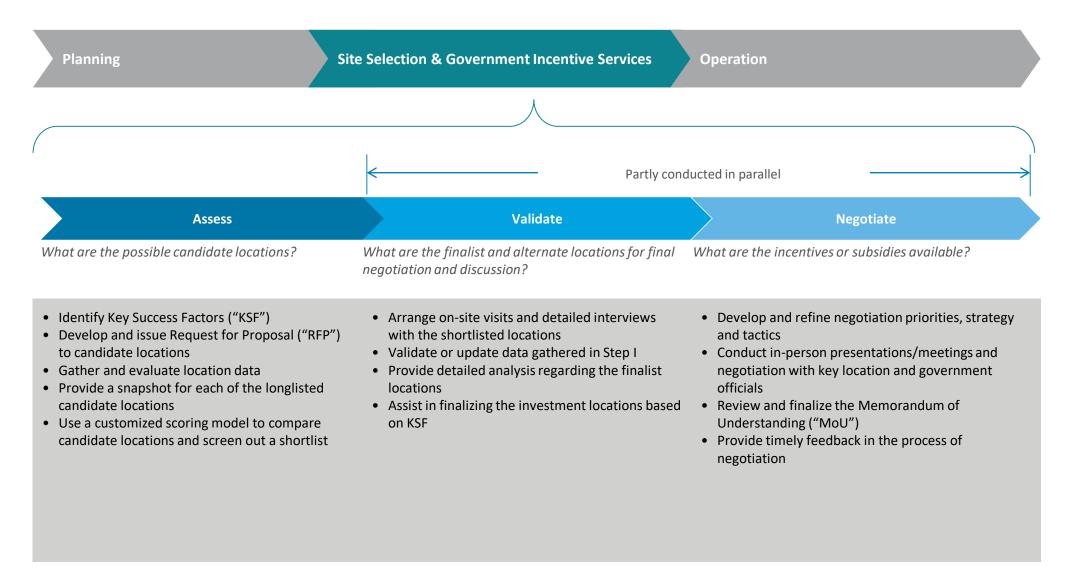
5. Tax compliance

- Monthly IIT, BT, VAT filing
- Quarterly ETI filing
- Annual IT and EIT filing/certification
- Other filings

6. Tax consulting

- Service fee remittance
- Application for VAT/BT exemption
- Other ad-hoc advisory
- Preparation of legal documents (Legal services)

3-phased Approach to Site-Selection & Government Incentive Services



Typical Local Government Incentives / Subsides

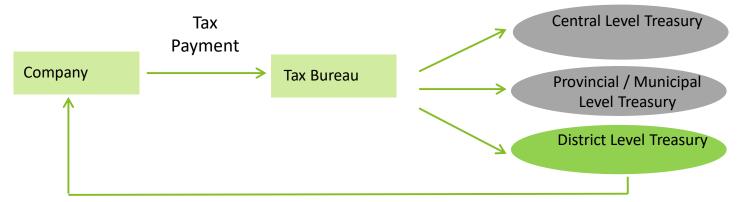
In recent years, some local government authorities have introduced preferential policies to promote regional economic development in forms of:

- Subsidy for land/construction/rental cost
- Subsidy for talent development and employee training cost
- Subsidy for investment of fixed assets
- Subsidy for R&D expenditures
- Subsidy for auxiliary facilities
- Subsidy for utility cost
- Financial subsidy based on the local retained portion of taxed to be paid

Please note that the availability or the detailed package of government incentives / subsides should usually be subject to case-by-case discussion with the in-charge authorities.

Tax-sharing Mechanism in China/Shanghai

Below shows how the financial subsidy is granted by the local government :



Certain percentage refund of local retained fiscal revenue in form of financial subsidy

- Tax revenue sharing mechanism in China
 - Tax revenue sharing ratio among the central, municipal and district level treasury (City of Shanghai is exemplified in the table below)

	Central Level	Municipal Level	District Level in Shanghai (for reference only)	Financial subsidy to be granted by district / local government is mostly based on this portion of fiscal revenue.
Enterprise Income Tax (EIT)	60%	20%	20%	
Value-added Tax (VAT)	50%	17.5%	32.5%	
Individual Income Tax (IIT)	60%	18%	22%	

Remark: The local financial subsidy would be granted based on the district/local portion of the tax revenue, subject to case-by-case negotiation.

Why Deloitte Team



Case – A Singapore personal care product manufacturer

Background

- The client intended to totally invest USD 20M to set up a WFOE in China;
- The client preferred to set up the new WFOE in southern or western China, especially in Pearl River Delta area.

Services

- Analyze client's strategy and set Key Location Success Factors ("KSF") for site selection process;
- Distribute a Request for Proposal ("RFP") to a long-list of candidate locations or industrial parks in the intended areas/cities and seek preliminary feedback;
- Provide a snapshot for each of the overall qualified longlisted candidate location and evaluate those longlisted locations according to the KSF agreed;
- Screen out a shortlist of candidate locations for visit and validation;
- Arrange for the first round on-site visit and accompany the management to meet with the in-charge local government officials of the shortlist of candidate locations;
- Update the snapshot for each of the shortlist of candidate;
- Obtain the relevant information about local investment policy and financial subsidies that could be offered by the local authorities and arrange for the second round on-site visit to further negotiate the financial subsidies with the in-charge local government officials;
- Summarize the main findings of the local investment environment and assist the management to finalize the investment location after the on-site visit and comparison.

Results

- Distributed the RFP to more than 40 locations in the target areas, followed up with the local authorities and collected feedback from about 15 locations;
- Accompanied the management in on-site visits to 9 potential locations in Pearl River Delta area;
- Set up 2-3 rounds of meetings with the competent officials of the shortlisted locations to facilitate the management's negotiations to get more favorable subsidies and narrow down the list;
- The client has made the final decision, and signed the MOU to obtain favorable incentive policies.



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the "Deloitte organization") serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 312,000 people make an impact that matters at www.deloitte.com.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

The Deloitte brand entered the China market in 1917 with the opening of an office in Shanghai. Today, Deloitte China delivers a comprehensive range of audit & assurance, consulting, financial advisory, risk advisory and tax services to local, multinational and growth enterprise clients in China. Deloitte China has also made—and continues to make—substantial contributions to the development of China's accounting standards, taxation system and professional expertise. Deloitte China is a locally incorporated professional services organization, owned by its partners in China. To learn more about how Deloitte makes an Impact that Matters in China, please connect with our social media platforms at www2.deloitte.com/cn/en/social-media.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2020. For information, contact Deloitte China.

Designed by CoRe Creative Services RITM050431

