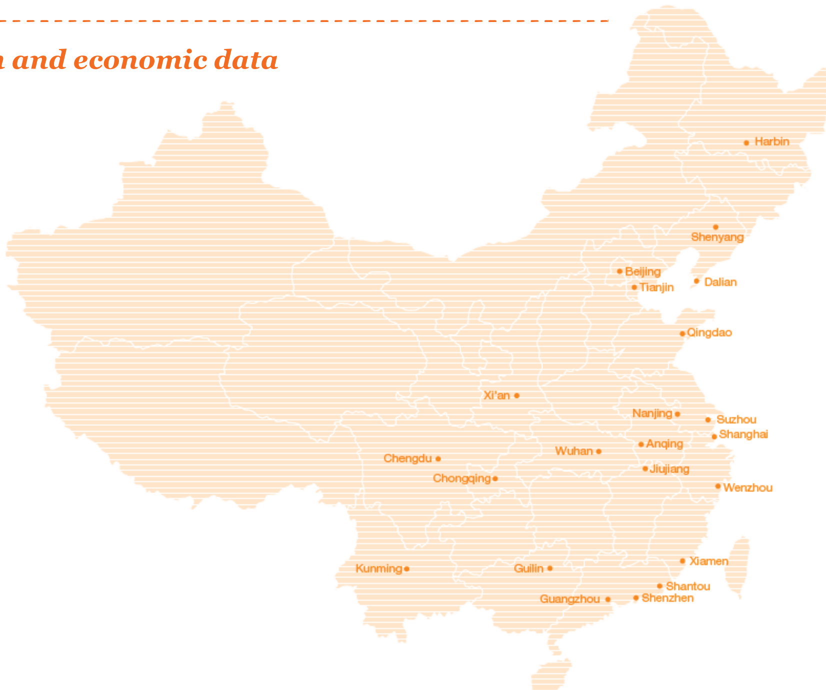
A compilation of insider knowledge and advice, whether you're entering the China market for the first time or growing your existing business.

Doing business and investing in China
Overview

Major cities: population and economic data



pwc 普华永道

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PwC's established practice in China is dedicated to providing solutions and identifying issues that impact multinational corporations.

Anqing	Shenyang	Dalian	Harbin
Population: 6.16 (FY 2009) GRP: RMB 79,613 (FY 2009) PCI: RMB 13,454.14	Population: 7.20 GRP: RMB 501,754.27	Population: 5.86 GRP: RMB 515,816.21 PCI: RMB 19,014.37	Population: 9.92 GRP: RMB 366,485.38
Jiujiang	**Tianjin**	**Qingdao**	**Beijing**
Population: 4.91 (FY 2009) GRP: RMB 83,136 (FY 2009) PCI: RMB 14,203.00	Population: 12.99 GRP: RMB 922,446 PCI: RMB 24,292.60	Population: 7.64 GRP: RMB 566,619 PCI: RMB 22,367.88	Population: 19.62 GRP: RMB 1,411,358 PCI: RMB 29,072.93
Guilin	**Nanjing**	**Suzhou**	**Shanghai**
Population: 5.12 (FY 2009) GRP: RMB 94,823 (FY 2009) PCI: RMB 16,620.00	Population: 6.32 GRP: RMB 513,065 PCI: RMB 24,678.00	Population: 6.38 GRP: RMB 774,020 PCI: RMB 27,188.00	Population: 23.03 GRP: RMB 1,716,598 PCI: RMB 31,838.08
Wenzhou	**Wuhan**	**Xiamen**	**Xi'an**
Population: 7.79 (FY 2009) GRP: RMB 252,734 (FY 2009)	Population: 8.38 GRP: RMB 556,593 PCI: RMB 18,385.00	Population: 1.08 GRP: RMB 206.007.37 PCI: RMB 26,131.00	Population: 7.83 GRP: RMB 324,149 PCI: RMB 18,963.00
Shantou	**Chongqing**	**Shenzhen**	**Chengdu**
Population: 5.11 (FY 2009) GRP: RMB 103,587 (FY 2009)	Population: 28.85 GRP: RMB 792,558 PCI: RMB 17,532.43	Population: 2.06 GRP: RMB 958,151 PCI: RMB 29,244.50	Population: 11.49 GRP: RMB 555,133.36 PCI: RMB 17,589.00
Kunming	**Guangzhou**		
Population: 6.3 6 GRP: RMB 212,037 PCI: RMB 14,482.00 (FY 2008)	Population: 8.06 GRP: RMB 1,074,828.28 PCI: RMB 27,609.60		

Population: Population (in millions)
GRP: Gross regional product (RMB in millions)
PCI: Per capita income (FY 2009 figures)

Source: WindInfo and China Statistical Yearbook. 2011 figures, unless otherwise stated

Market entry and growth

Observations:

- China is not a single market, from region to region, Tier 1 to Tier 4 cities, industry to industry, and among different income levels.
- There are many trade-offs to consider before deciding on whether to work with a partner or pursuing organic growth.
- There is no defined formula for China entry; successful companies are flexible, and adapt quickly to the realities of their particular industry and market.

Recommendations:

- Relationships in China are helpful in due diligence and market research, particularly if your own investigative resources are insufficient.
- When analysing market research, find an adviser sufficiently familiar with the local market and contextual subtleties to interpret the data correctly.
- Properly localising your products and services takes a considerable amount of resources and research. Make sure you're ready to commit.

Doing deals

Observations:

- Good deals are relatively hard to find in China, deal sizes smaller and valuations higher. This is driven by the competitive environment, strong economy and robust long-term outlook.
- Strategic objectives of the government can play a role in shaping deals.
- For joint ventures, parties may have significantly different views on how to operate the business post-deal.

Recommendations:

- Investors must make sure that M&A is their best growth strategy; evaluate all options before proceeding.
- Buyer deal teams should work with experienced locally based advisers to manage key deal execution challenges, due diligence, assist in negotiations and resolve issues.
- Post-merger integration needs to be considered early on and carefully planned with full management buy-in from both sides. If integration is not properly planned or executed, it can have a significant impact on overall deal value.

Managing risks

Observations:

- Businesses may superimpose global strategies onto China without first considering local consumer needs or market dynamics.
- Companies without insight into local Chinese business practices and culture sometimes find themselves unprepared for the underlying risks.
- With more and more companies implementing lean operations, the resulting reduced controls and streamlined processes are posing an increasing risk.

Recommendations:

- Adopt a holistic and China-specific risk management framework that addresses both strategic drivers and sustainability drivers.
- Set the right tone from the top, reassure local managers that compliance is a priority—even if it could have a significant impact on the bottom line.
- Invest in localised procedures and appoint China-based senior management to lead compliance programmes to ensure they are proactive and effective.

Internal control

Observations:

- Internal controls and corporate governance evaluations are often not part of due diligence in China.
- The business volume of Chinese operations can sometimes be too much for global systems to handle.
- Variations in Chinese tax and accounting laws can affect the migration of reporting systems.

Recommendations:

- Internal audit functions should play an advisory role in both pre-deal due diligence and post-deal integration.
- Secure the commitment of the local workforce through regular visits; demonstrate commitment by taking part in local training programme delivery.
- Building up China integrated reporting capacity will result in better corporate governance and cost efficiencies for tax and resource consumption.

Finance and treasury

Observations:

- The expanding role of the renminbi in the global economy creates opportunities for many companies.
- While the government is adopting a strategy of relaxing long-term financial- related controls, policies remain quite fluid and open to interpretation.
- Businesses often underinvest in their China treasury. Treasury's role in driving cash flow improvements, capital efficiency and the business is underutilised.

Recommendations:

- Adopt a dynamic and flexible treasury strategy to account for constantly changing business agendas and regulatory policies.
- Evaluate how the renminbi's growing internationalisation affects the company from a competitive, revenue, cost, cash flow and risk perspective.
- Optimising cash and banking management practices is the best way to minimise funding needs.

Human resources and talent management

Observations:

- Local employees are increasingly choosing to work for state-owned enterprises over foreign multinationals.
- Mid-to-senior-level managers in China are relatively young, compared with their Western counterparts, and turnover is high.
- Market realities may require that expatriates and Chinese returnees fill talent gaps in the short term.

Recommendations:

- Family-focused benefits and perks can help retain workers with aging parents or children.
- Begin succession planning early. Make sure there's a clear path for advancement, as well as sufficient opportunities and global mobility.
- When selecting managers to send to second and third tier cities within China, consider staff with local roots in those regions.

Supply chain strategies

Observations:

- Due to the country's size, proper location selection for your supply chain is critical for corporate strategies that position China as a key market.
- China still boasts unsurpassed flexibility, responsiveness and infrastructure. Make sure you balance cost considerations against these factors.
- Lower costs, talent, incentives and proximity to market are compelling reasons to move research & development functions to China.

Recommendations:

- Align tax considerations with supply chain models such as SCOR to drive operational sustainability and cost savings.
- Consider multiple manufacturing hubs as a potential solution, factoring in global logistics, transfer pricing and local incentives.
- Work with your suppliers, and provide them with the tools to monitor the quality standards of their operations and that of their contractors.

Government relations, regulatory compliance and stakeholder alignment

Observations:

- In mature industries, building relationships in government is not as important as that of developing or transforming industries.
- Securing the right connections in China necessitates a considerable commitment of time and resources.
- Foreign investors offering services, goods or strategies that are new or unfamiliar to the Chinese market may need to put even more effort in their communications to ensure all stakeholders are properly appraised.

Recommendations:

- Investors should work with officials they're comfortable with. Strive to maintain these relationships. Be persistent and consistent.
- Local managers cultivating a wide network of local contacts can lower compliance risks.
- Investors may need to map out their stakeholders when conducting due diligence, and properly gauge their issues and concerns.

Tax management: planning and compliance

Observations:

- The Chinese tax system is complex, and tax policies are changing rapidly to keep pace with economic development.
- Aggressive planning schemes without commercial bases tend to face more challenges. Anti-tax avoidance, including transfer pricing, is an increasing concern for tax authorities.
- On the tax administrative side, authorities have started focusing on taxpayer services, but there is still room for improvement.

Recommendations:

- Ensure tax strategy is aligned with the overall business strategy and that tax implications are taken into account when choosing a business model.
- Stay on top of new tax developments and insights on tax regulations. Know the administrative practices of the local level tax bureaus.
- Plan ahead for potential tax risks and consequences with tax risk management.

Accounting and reporting

Observations:

- There are currently two accounting regulation systems in China.
- Even if the functional currency is not renminbi, your company in China will still need to present one set of financial statements in renminbi for statutory purposes.
- Tax regulations require that companies make necessary adjustments to their accounting profits to arrive at their taxable profits.

Recommendations:

- Make sure you have at least a general understanding of the differences among ASBE, CAS 2006 and IFRS, and their different impacts on the financial positions and results.
- Pay attention to the accounting year in China which must be from 1 January to 31 December and may not be the same as your group's reporting packages.
- Ensure your local accounting profit is appropriately adjusted to the taxable profit in the tax return in accordance with the tax regulations.

For a full version of the Doing business and investing in China book, visit our website at www.pwccn.com/ investchina, or email us for a copy at investment.china@cn.pwc.com.

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