



CHINA BRIEFING

A Practical Monthly Guide For Practical China Business May 2002

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OPENING UP THE WEST *SPECIAL ISSUE*

YOUR COMPLETE GUIDE TO THE WESTERN REGIONS:
XINJIANG / GANSU / INNER MONGOLIA / NINGXIA /
QINGHAI / TIBET / SICHUAN / SHAANXI / GUIZHOU /
GUANGXI / YUNNAN

WESTERN REGIONS FISCAL INVESTMENT INCENTIVES

LOGISTICS OPERATIONS IN CHONGQING

JUST IN CASE YOU GET SENT TO:
URUMQI

THE DEZAN SHIRA CHINA GROUP

WE GET OUT THERE

Welcome to this expanded special issue of "China Briefing" and our introduction to the Western Regions of China. Over the past three years we have conducted extensive research into all of the Provinces and met with most of the senior Government officials to prepare ourselves and our clients for the impact of WTO and China's own "Go West" campaign. The desire to sell product to China is intrinsically linked to the Go West campaign - it is a huge area and home to some 370 million people with some of China's largest city populations being included in this. China's West represents a massive strategic and important market encompassing as it does many of the major- transportation hubs for distribution of product into China's heartland. Cities such as Kunming, Chengdu and Chongqing to the South, and Xi'an, Lanzhou and Urumqi to the North all being vitally important in any serious pan-China sales strategy. Shanghai and Beijing pale into market insignificance when compared to the tens of millions in China's huge Western cities and their latent, cheap workforce. Make no mistake - unless you understand the Western regions and are developing a strategy to exploit the opportunities you cannot be considered a true China operation. Here then is a comprehensive guide to what is going on, and where - we hope you find it as interesting as we did in researching it.

British Consulate General in Chongqing, China-Britain Business Council in Chengdu

The Brits have been making some headway into the West with both a Consulate-General in Chongqing and a facility in Chengdu. Carma Elliot is the Consul-General there and I know from personal experience what a help she is when trying to understand

what is going on in Sichuan, and the South-west in general. The Consulate can be contacted at (023) 6381 0321, the CBBC in Chengdu is at (028) 652 1700, contact Roger Hui. Chengdu also has a British Chamber - probably one of the furthest flung chambers of commerce in China right now. Good to see commitment of this sort by the British Government in the West and yet another sign of the strategic importance being placed on the Western regions.

Perdue Farms Inc; - China Market Research in Shanghai

Our research company, DSMR, has been busy with conducting local consumer research into the Shanghai market on behalf of Perdue Farms Inc, one of America's best known brands and supplier of chicken products - they sell everything from rotisserie to drumsticks to nuggets. DSMR's work enabled them to pin-point Chinese consumer tastes and brand positioning research, and as a consequence Perdue have just launched its product range in Shanghai, which can now be found in supermarkets across the city. Happy munching! For market research programmes in China please contact DSMR at info@DSMRChina.com.

Christoffle in Shanghai

Congratulations to the French luxury goods company Christoffle, who have invested significantly in Shanghai and are now distributing their products in the up market department stores around the city. With the business licensing and tax issues being handled by Dezan Shira & Associates Shanghai Office, Christoffle plan on other expansions and developing this market over the next few years. For information about obtaining your sales or distribution licenses in Shanghai please contact Chris Devonshire-Ellis at Dezan Shira



[Going west...](#)



[Perdue Farms Inc, competent market research leading to successful product launch in Shanghai. DSMR's Mike Bellamy pictured with Perdue's Mary Lu and Simon Wang.](#)



[Peter Thewlis and Julie Wu of Christoffle, new operations distributing their luxury products in Shanghai.](#)

& Associates local office on (021) 6279 8658 or email chris@dezshira.com.

Arnold Magnetics - Shenzhen WFOE

Congratulations to Arnold Magnetics Ltd of the US, establishing their new manufacturing operations in Shenzhen assisted by Dezan Shira & Associates Shenzhen office staff. Group Arnold is one of the largest manufacturers of magnetic products worldwide and has been servicing commercial, automotive, military, farming and industrial applications internationally since 1903. Their new operation is a USD4 million investment and is housed in a 4,000 m² factory. Dezan Shira & Associates Shenzhen Office assisted with the entire project operations, from site location recommendations to structuring the investment efficiently tax and repatriation wise, to filing the application and obtaining the relevant licenses and so on. For information on setting up operations in Shenzhen and Guangdong province please contact Alberto Vettoretti at Dezan Shira & Associates Shenzhen office at (0755) 366 4120 or email to alberto@dezshira.com.

China Logistics Assist Batchen

Our China Logistics company has been busy of late with Batchen Shanghai, an Australian LP Gas equipment

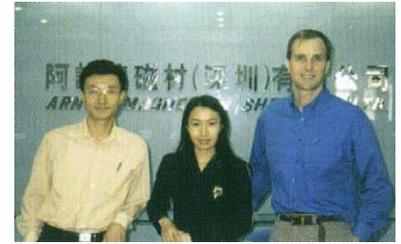
manufacturer using us to additionally engineer reverse logistics of used LP pumps from Shanghai back to Sydney as well as have us handle their on-going domestic transportation issues. If you are looking for advise or in-depth knowledge of logistics in China please contact Jamie Gwynn, China Logistics Ltd at (021) 6279 7330 or by email JGwynn@PRCLogistics.com.

Recruitment in China -A Tip Looking for Staff?

We have always found the Chinese recruitment websites to be useful - inexpensive and easy to use. Try www.zhaopin.com or www.51job.com, both have English language facilities. We have always found them quick and productive when recruiting with a high caliber of personnel browsing the sites looking for that career move upwards.

Have a great May!

Chris Devonshire-Ellis
Group Chairman



Well done to Arnold Magnetics in Shenzhen, a new factory; Arnold's Steve Pistono and Tom Liu pictured with Dezan Shira & Associates CPA Tracy Ying.



China Logistics' Jamie Gwynn (left) with Dean Cambridge of Batchen Shanghai - effective domestic distribution by us for them.

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To demonstrate our commitment to the development of international trade and business with China, the Dezan Shira China Group produces "China Briefing" as a free monthly advisory service, for all companies and individuals interested in or actively participating in China commerce. With a print run of some 25,000, and significant costs in production and mailing, this is our way of putting something back into the China International business community. All that we ask is that our company services are considered when you are in need of China business assistance or advice. Ok, that is the deal - now how get this free: if you are in Hong Kong or China, please just fill in the form and fax it to us, we will update our records and send it you free via post every month. For international (i.e. non-China or Hong Kong addresses) sorry, we will have to send you our email issue instead - send your details to us at publication@dezshira.com

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A GUIDE TO THE WESTERN REGIONS

By Chris Devonshire-Ellis, Dezan Shira China Group Ltd

This Guide is a definitive piece on the geography, geology, investment zones and principal cities of note throughout Western China. We have included all regions identified by the State Council as being part of the “Go West” campaign.

XINJIANG

Xinjiang is China's largest Province by area, covering some 1.65 million square kilometers, and it's most Western, bordering with Mongolia, Russia, Kazakstan, Kirghizia, Pakistan, and India. It shares Provincial borders also with Gansu, Qinghai, and Tibet. Its capital city is **Urumqi**. Xinjiang's population is roughly 16 million, with about 1.5 million in the capital. Its topography encompasses both desert - the Gobi and the Taklimikan - and high mountain ranges with the Tianshan and Kunlun mountains, in addition to steppe and plains. Due to its Northern proximity summer daylight hours are long, establishing the region as the forefront for China's fruit growing industry. Its status marks it out as one of China's “Autonomous Regions”, meaning that Beijing recognizes the minority population there (in this case, the Uigyr - pronounced “Wewur” people - ethnically Caucasian and mainly Muslim) and affords the Provincial Government far more local decision-making power than is normally the case. This can affect some investment policies so it is wise to be aware of these - examples are the ability for Insurance companies to form Joint Ventures, and for Granted Land Use rights to be approved by the Provincial, and not Central Government. The standard port of entry/exit for goods is Tianjin, (excepting those destined for Central Asia) goods can be custom cleared for export in Urumqi. Most of Xinjiang's foreign investment potential lies in establishing light industry manufacturing facilities for export to the Central Asian republics and the Province offers substantial incentives for Foreign Investors to do so. The Province is also wealthy in minerals, Oil and Natural Gas and is a major inland drilling and processing centre for China's Petro-Chemical industry.

Urumqi has two investment development zones, offering

preferential tax conditions, at Sanping and Diwopu.



Attending Foreign Investors Banquet with Xinjiang President Abdul Rexiti

GANSU

Gansu covers some 450,000 sq km, with a population of some 26 million, 1 million of which are centered in the Provincial Capital, **Lanzhou**. It is China's centre most province geographically, but is considered one of the Western regions. It has no Country borders but shares Provincial boundaries with Xinjiang, Inner Mongolia, Qinghai, Ningxia and Shaanxi. About 5% of the population is Muslim. Part of the province covers the Gobi Desert, it is also the site of two important cultural sites, the Mogao Grottoes at Dunhuang, which are a Unesco World Heritage Site, and the Western end of the Great Wall. Principal industry is fruit, agriculture & textiles. Lanzhou has an inland customs bureau, which can seal containers for export via Tianjin. Lanzhou itself has several investment zones, offering preferential tax incentives for foreign investors, located at Lianhai, Baiyin, Jinchang, Linxia, Xicheng, Dunhuang, & Ningwozhuhang, covering a variety of specific industries including metal extraction, trading, tourism packaging and pharmaceuticals.



With Gansu Provincial Governor Han Xiu Guo

INNER MONGOLIA

Inner Mongolia is an autonomous region, with the

Provincial Capital at Hohot. The Province possesses a lengthy border with Mongolia, and part of Russia to the east, with Provincial borders with Xinjiang, Gansu, Ningxia, Shaanxi, Shanxi, Hebei, Liaoning, Jilin and Heilongjiang, the province running across most of the Northern part of China proper. Covering some 12 million sq km, with a population of 23 million, the area consists largely of desert (The Gobi) and steppe land, being centered on the Mongolian plateau at an average elevation of 1000 meters. About half of the region is set aside for grazing lands (mainly sheep and goats but also cattle, horses and camels) with a large proportion of the population being nomadic. Industry exists in the form of coal mining, iron and steel works, as well as chromium and copper mining, in addition to salt and soda extraction from the Gobi salt lakes. The only fertile region is the Valley of the Yellow River, which flows for hundreds of kilometers through the province, land close to it is given over to agriculture such as cereals, sugar beet, maize, & potatoes. There is a short growing season as Inner Mongolia is only frost-free on 130 days a year. There are several investment areas in Inner Mongolia, sited at Hohot, Baotao, Chifeng, Tongliao, Erlian, Hailaer, Manzhouli, Erenhot, Hulunbuir, Higgun, Wuhai, Jelim, Xilin, Ulanqab, Ih Ju, and Bayannur, in the main involved in the raw material and building industries.

NINGXIA

Ningxia is an autonomous region, comprising of the Muslim Hui people, and is China's smallest province geographically, covering some 66,500 sq km with a population of some 5 million. The North of the Province is considered the Granary of North West China, growing rice, millet and other grains, while fruits and other agriculture dominate. Coal mining is also a significant industry. Much of Ningxia is desert, with the Liupan Mountains to the South. The Provincial capital is at **Yinchuan**, with a population of about 500,000. There is a Development Zone, offering incentives to the Foreign Investor, at Yinchuan.

QINGHAI

Qinghai borders the Provinces of Xinjiang, Tibet, Gansu, and Sichuan, and has the second lowest Provincial population density after Tibet, being some 4.8 million in a region covering some 720,000 sq km. The Province is characterized by being part of the Tibetan plateau, with the Taklimikan Desert, and the Kunlun Mountains dominating. Only 2% of the area is forested. The Provincial capital is **Xining**. Main industries are agriculture, textiles (cotton) and fruits. Grains are also

grown, livestock farming is a staple employment. The local Government is trying to attract foreign investment, and is looking for co-operation in the following areas: Agriculture, Energy, Transportation, Raw Materials, Light Industry and Food products.



Qinghai
Planning
Commission
Director Xiao
Cheng Zang

TIBET

Tibet is an autonomous region covering an area of some 1.22 million sq km, with a population of some 2.6 million people. It borders India, Nepal, Bhutan and Burma, with provincial borders with Xinjiang, Qinghai, and Sichuan. The whole region covers the Tibetan plateau, averaging some 4000 meters above sea level and some of the most spectacular mountain scenery in the world. Most of North Tibet is uninhabited, with the Southern plateau home to the capital, **Lhasa**. The Potala Palace is a World Heritage Site. With a well-known history and the World religious centre for Buddhism, Tibetan industry comprises electric power stations, coal mining, timber and agriculture such as barley, wheat, pulses and some fruit and vegetable production. Tourism is a major industry in Lhasa and Xigaze. 25% of the population is nomadic. Tibet does enjoy a more free reign over its internal Government than most people realize, being an autonomous region since 1965 and with a programme of re-investment and reform, including religious freedoms and the re-privatization of agriculture, being enacted since 1980. Beijing however does not regard the sovereignty of Tibet to be an issue and it will remain part of China - a status Tibet has lived with on and off for many centuries. There is a small flow of Foreign Investment into Tibet and the Provincial Government has a Foreign Trade Department in Lhasa.



Going to market:
China's West is
rich in livestock
and agricultural
products

SICHUAN

Sichuan is China's most heavily populated Province, some 125 million people in a region covering 570,000 sq km. The Province is surrounded on all sides by

high mountains, the Dabashan Range to the North, the Qinghai Highlands to the West, the Wushan in the East, the Guizhou Plateau to the South, with a massive central plain with fertile soil, rich mineral deposits and mild climate. The provincial capital is **Chengdu**. Sichuan is rich in Natural Gas, Coal, Oil, Sulphur, Manganese, Iron Ore and Salt deposits are all being exploited, giving rise to major industries such as engineering, vehicle manufacturing, iron smelting, chemical production in addition to cotton and staple food production. Agriculture includes production of rice, maize, wheat, millet, sugar cane, tea, yams and soya, while silk production and livestock breeding are also major industries.

Chengdu (pop: 4.5 million) is an important centre for rice and wheat growing, and is well connected to all other major Chinese cities, including links to Lhasa in Tibet. It also is a major tourist destination, with two World Heritage Sites to the North, Huanglong and Jiuhaiyou, both natural beauty spots in addition to a variety of other cultural attractions close by. Chongqing (pop: 7 million) lies to the east of the province, at the meeting of the Chanjiang and Jialingjiang Rivers, giving it strategic importance for the distribution of goods further inland via river. It is recognized itself as a municipality, giving it the same status as a Province. Chongqing possesses mines as well as large shipyards, and also boasts a renowned University. It is the political and commercial centre for South West China. Tourism is also a fairly major industry with many cultural sites including the 50,000 stone carvings at nearby Dazu in addition to various other historical sites, some dating back more than 2,000 years, and the World Heritage site at Mount Emei, a peak of some 3,099 meters with the closely Leshan Giant Buddha, which stands 71 metres tall carved into the Qiulan Mountain, taking 90 years to complete in the Tang Dynasty some 1,300 years ago. Chongqing has investment zones, offering

incentives to the Foreign Investor, located at Nanping and Juilongpoqu, covering a wide range of industries.

SHAANXI

Shaanxi is an important province in China's history, the ancient capital Chang'an was located here (close to today's Xi'an) being the Eastern most point of the Silk Road. Shaanxi's population is some 36 million, with about 3 million in Xi'an the capital city. Shaanxi covers an area of some 195,000 sq. km. Topographically, the Province can be divided into two, with the Northern part being steppe plateau, and the South comprising the Huang plain, bordered by the Qinling Mountain range. Tourism is a major industry with Xi'an being the home of the world famous Terracotta Warriors, (more properly known as the Mausoleum of the Emperor Qin Shihuang) which are a Unesco World Heritage Site, amongst other attractions. Xian is a walled and moated city, covering some 17 miles around the city proper. Besides tourism, the Province has heavy industry, coal and oil processing, in addition to agriculture, fruits, grains and some hi-tech industry. Shaanxi borders Inner Mongolia, Ningxia, Gansu, Sichuan, Hubei, Henan & Shanxi Provinces, which could assist with its development as a central distribution or collection point for goods entering or exiting from the port of Tianjin, or as a manufacturing base for products to be then distributed internally into China's central regions. The Province has development zones offering special tax incentives to the foreign investor in Xi'an, Baoji, Xianyang, Weinan & Yangling, covering the hi-tech, titanium processing, electronics, fertilizer, chemical and agriculture industries.

GUIZHOU

Guizhou covers an area of some 170,000 sq km, with a population of some 36 million. It borders Sichuan and Yunnan to the North and West, and Hunan and Guangxi to the East and South. The capital city is **Guiyang**. 85%



Chongqing Director of Planning Wu Yuande



With Shaanxi Governor Chen An Dong

of the Province is high plateau crossed by Mountain ranges, dropping down in stages from East to West, creating a dense network of rivers and valleys, with a large amount of rainfall. Industry is concentrated in the iron and steel, engineering, electronics, cement, fertilizers and tire manufacturing areas, with mercury, coal, bauxite and manganese all being mined. Agriculture is centered on crops such as rice, wheat, maize, rape, potatoes and tobacco, with the silk industry also being of some importance. The area is famous for the production of Mao Tai liquor. Foreign investment is concentrated in the areas of agriculture, infrastructure, chemicals, electronics, minerals, the optical industry and energy. Development Zones offering incentives to foreign investors are located in Guiyang and Zunyi.

GUANGXI

Guangxi is an autonomous region, with a level of self-governance, sited West of Guangdong Province, bordering Hunan & Guizhou to the North, and Yunnan to its West. It is south is a lengthy coastline with the South China Sea, up to Vietnam with which it also shares a 1,000 km border, with Hainan Island lying due South East. It covers an area of 240,000 sq km, with a population of some 50 million. The Provincial Capital is **Nanning**. 85% of the region is mountainous karst stone, giving rise to spectacular scenery in many parts of the Province, often considered the most beautiful in China. Guangxi's industry is centered on sugar processing, metallurgy, chemicals, engineering, electronics and cement production. Mineral resources include crude oil, natural gas, coal, iron, zinc, nickel and bauxite. Agriculture is a major industry, with bananas and pineapples the dominant crops. Rice (two annual harvests) is also grown, while some timber industry exists producing sandalwood and cork. Fishing is also an important industry here. There are several investment areas located in the capital, catering for biotechnology, biomedicine, electronics, synthetic material production, textiles and some hi-tech industry. Guiyang also has an investment zone, as does the island of Wuzhou, which possesses good harbor facilities and is a strategic point for distribution to Guangxi, Guizhou and Sichuan. Its closeness to the navigable waterways of the Pearl and Xinjian Rivers also make it a valuable location. Beihai, on the coast, has been developed as a tourist resort, in addition to its harbor facilities. It also is a centre for the Energy, petrochemical and metal processing industries. Guangxi's tourism industry is focused on Guilin, which has an international airport, being famous for its karst limestone mountain scenery and with the meandering River Li being likened to a "Ribbon of blue

silk weaving through a landscape of jade" - a trip up the River to nearby Yangshou becoming a must do on many tourist schedules.

YUNNAN

Yunnan lies in China's South-west, sharing a common border with Vietnam, Laos, and Burma, and provincial boundaries with Guangxi to the East, Guizhou and Sichuan to the North, and Tibet to the North West. The Mekong River flows through Yunnan from North to South. It covers an area of 400,000 sq km, with a population of 46 million. The Provincial Capital lies at **Kunming**. Most of Yunnan lies on the Qinghai-Tibet plateau, in the form of terraced steppes, averaging some 10,000 ft above sea level, with high peaks in the northwest to 22,000 feet. The Mekong, Nushan, Yuanjiang and Xijiang Rivers have carved out deep valleys through these mountains. Rich mineral deposits are found in Yunnan, with mining thus being a major industry. Tin, Copper, coal, iron and phosphorus are all extensively mined. Only 6% of the total land is agriculturally fertile, with this producing rice, maize, wheat, sugar beet, yams, tobacco and coffee. Foreign investment is particularly encouraged in road and infrastructure construction, mineral exploration, processing of non-ferrous metals, rubber, & fruits, cattle and plant breeding, and tourism. Kunming is the site for the International Horticultural show, once a year in the spring. Kunming itself has investment zones, while others exist at Chuxiong, Qujing, Yanglin, & Yuxi, all offering favorable terms for foreign investment. Tourism is developing in the towns of Lijiang, Dali and Jinghong, favored mountain getaways previously the peaceful preserve of backpackers but now generating more international exposure. Lijiang is a World Heritage site, a Ming dynasty town with cobbled streets, traditional low roof houses with the spectacular backdrop of the snowcapped Yulong Mountains. It has recently opened an airport to expand its tourism facilities.



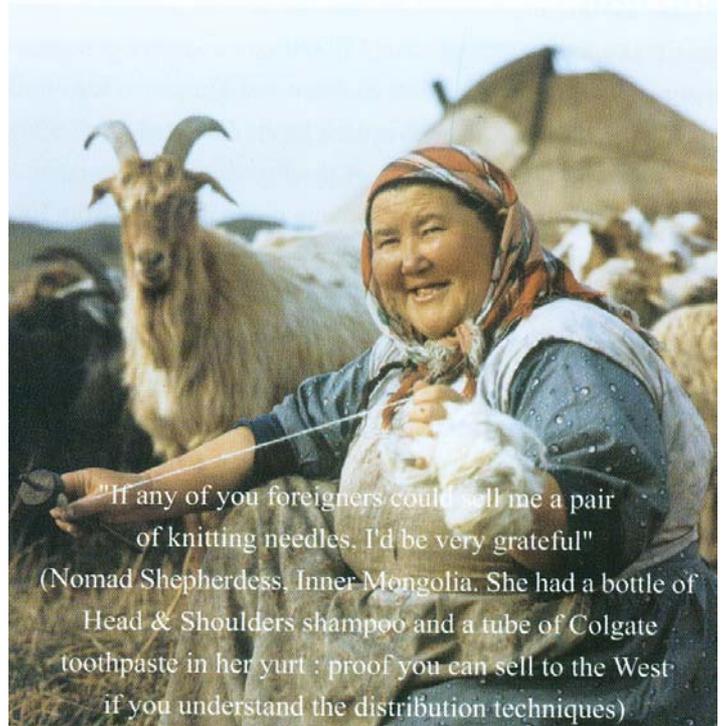
Shao QiWei, Vice-Governor, Yunnan Province

THE GO WEST CAMPAIGN

This is the responsibility of the State Development Council, whose specific "Western Regional Development Office" deals with all issues related to Western Regional development. This is headed up by Mr. Ning Jizhe. We retain excellent relations with the office and as a matter of policy have conducted long-term research and established contact at the highest levels of Government throughout the West. Please contact our relevant companies for information on structuring business or conducting research into China's Western Provinces.

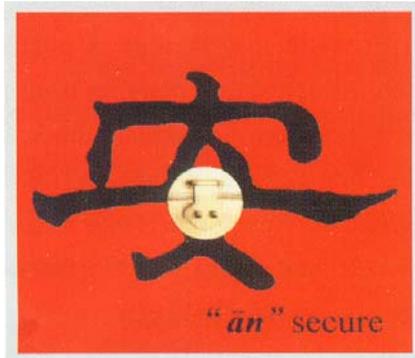


Director-General, Western Regional Development Office, State Council, Ning Jizhe



"If any of you foreigners could sell me a pair of knitting needles, I'd be very grateful"
(Nomad Shepherdess, Inner Mongolia. She had a bottle of Head & Shoulders shampoo and a tube of Colgate toothpaste in her yurt : proof you can sell to the West if you understand the distribution techniques)

TO ACCESS CHINA CALL US:



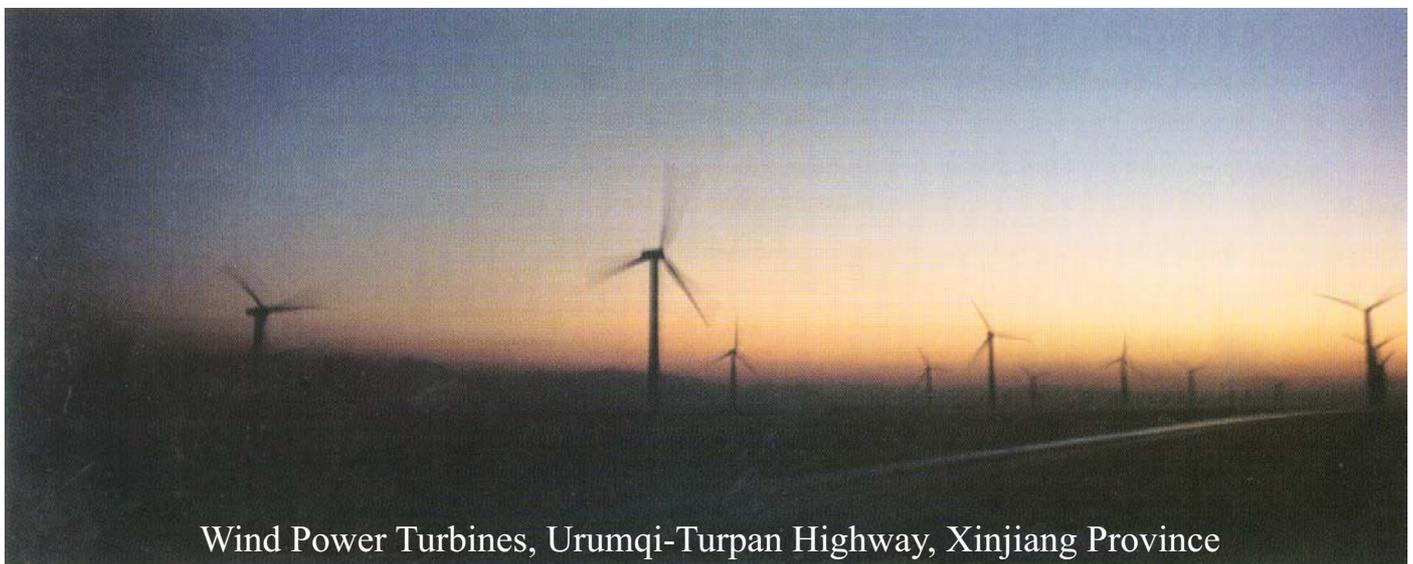
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Wind Power Turbines, Urumqi-Turpan Highway, Xinjiang Province



WESTERN REGIONAL INVESTMENT INCENTIVES

By Mike Bellamy & Chris Devonshire-Ellis, Dezan Shira & Associates

SOMETHING FOR EVERYONE

This article contains a selection of the fiscal incentives available for the foreign investor when assessing the Western Regions. It is by no means comprehensive, and is produced to demonstrate the sheer variety of tax breaks, waivers, fee exemptions and in some cases, free land that are available to the savvy Foreign Investor. Broken down into a variety of industry sectors, these as mentioned are selective, please contact us directly for more information on full investment opportunities and incentives.

Tax Glossary: (all figures nationally as percentage of gross turnover) **Agriculture Tax:** 15.5%. **Agriculture Specialty Tax**, dependent upon product as follows: Tobacco: 31%, Horticultural Products, Fruits & Tea: 8-16%, Forestry Products: 8-10%, Livestock: 10%, Edible Mushrooms: 8%, Other Valuable Foodstuffs: 25%. **Stock Raising Tax:** 3-5%. **Mineral Resource Compensation Fees, Exploration Consideration Fees, Development Consideration Fees**, and **Local Income Tax** are all negotiable and subject to local policy - there being no standard national rate.

AGRICULTURE

Yunnan: Exemption for Agriculture tax and Agriculture Specialty tax for foreign enterprises engaged in developing uncultivated lands, from profitability of enterprise, 100% reduction first five years of profitability.

Xinjiang: Exemption of Agriculture tax first five years; FIE's involved in development of agriculture,

forestry, or stock raising or the processing of these, with an investment of USD5 million may obtain discounts of up to 10% on VAT for first five years.

Sichuan: FIE's engaged in agriculture or stock raising for periods in excess of ten years may be enterprise income tax exempt for ten years; if engaged in the development of agricultural science, or on uncultivated mountains or land may be exempt from Agriculture tax for five years from initial product selling year, and from Agriculture Specialty tax for initial three years of product sales; FIE's involved in upgrading of grasslands, pasture, grass breeds, or livestock breeds may pay reduced Agriculture tax at 3%.

Guangxi: FIE's involved in agriculture, forestry, stock raising or fishing are exempt from local income tax.

Tibet: FIE's involved in the development or processing of forestry, agriculture, stock raising, processing of animal or agricultural products, geology exploration, Mineral processing, or the production of construction materials may be exempt from enterprise income tax from date of initial operations.

Chongqing: FIE's involved in agriculture development, processing or exporting of such produce, or oil operating in minority or underdeveloped regions may be entitled to discounts of up to 30% of enterprise income tax for up to ten years from incorporation; for FIE's

involved in development of agricultural science on uncultivated lands Agriculture tax is exempt for 5 years, and from agricultural specialty tax for 3 years; for those involved in raising of improved livestock, agricultural produce, grasslands, pastures may enjoy discounted stock raising tax to 3%.

ENVIRONMENT

Xinjiang: FIE's engaged in environmental protection, or in the economic development in small towns, with actual investment in excess of USD5 million may be entitled to VAT subsidies to 10%;

Sichuan: FIE's involved in environmental protection qualify for Foreign Enterprise Income Tax exemptions at 100% for first five years, and at 50% for next five years of operations.

MINING / EXTRACTION

Qinghai: Foreign investors may be entitled to up to 100% discount on exploration consideration fees; 50% discount on development consideration fees and 90% discount on mineral resource compensation fees depending upon amount previously provided for by State funded exploration.

Xinjiang: (excepting Oil & Gas): 50% discount on mineral resource compensation fees, amortization of exploring expenses during the commercial development period; FIE's engaged in exploration, development, processing of ferrous and non-ferrous metals, nonmetal mineral resources, with an investment in excess of USD5 million may obtain subsidies of up to 10% of VAT paid for 5 years from commencing operations.

Sichuan: Mineral Resource Compensation fees up to 100% discount in under-water resources, resources under large buildings and gangues; FIE's engaged in development or exploration in natural resources entitled to 50% discount in Foreign Enterprise Income Tax for life of venture

if in excess of ten years; amortization of exploring expenses permitted within ten years from first year of commercial activities.

Chongqing: For the following foreign enterprises, local income tax reductions:

- License less than ten years: Tax exempt first two years, 50% next three;
- License over ten years: Tax exempt years one to six, 50% seven to ten;
- Licensed over fifteen years with investment to USD30 million: Tax exempt first eight years, 50% years nine-fifteen;
(Possibility of extensions of 50% exemption if located in minority or other underdeveloped areas following initial exemption term);
- Exploration expenses may be amortized within 5 years commencement of operations, or within 2 years if development license in less than ten years;
- Accelerated depreciation permitted for fixed assets during commercial development periods;

Mineral Resource Compensation fees may be waived for developments in minority or underdeveloped regions, also permitted if using advanced technology or in low content resources that are difficult to resource or smelt.

INSURANCE

As Indicator, National Regulations:

With Nationwide coverage: Capital: RMB500 million. Maximum branches: 3

Provincial coverage: Capital: RMB200 million.

Maximum branches: 2

Capital for extra branches: RMB50 million

Business Tax @ 8%

Income Tax as regionally applicable (SEZ's: 15%, Nationally, 33%)

Western Regions:

Chongqing: Article 3, CQ rules on deregulating monopoly industries: “Foreign Companies may establish FIE’s or WFOE’s in accordance with China joining the WTO”

Gansu: Article 6, Provincial rules on encouraging foreign investment: “Foreign entities may establish insurance companies in downtown Lanzhou”

Shaanxi: Article 6, Registration rules for enterprises in economic & technical development zones: “Representative Offices for insurance companies may be established”

TELECOMMUNICATIONS

Somewhat ambiguous and limited thus far to:

Chongqing: Article 3, CQ rules on deregulating monopoly industries: “Foreign investors may be allowed to invest in EJV or WFOE’s in accordance with PRC laws and regulations and the due process of China joining the WTO”

CONSTRUCTION

Gansu: FIE’s involved in construction of high-class roads, bridges or tunnels may levy higher toll fees than same class roads elsewhere in the province;

Xinjiang: FIE’s engaged in the construction of water conservation, energy, waste, or the upgrading of non-usable land, or transportation infrastructure projects may obtain granted land use rights at zero premium; and also obtain 10% VAT subsidiaries for initial five years of operations;

Sichuan: The Foreign investors of FIE’s may be exempt from business tax and foreign enterprise income tax during capital recovery period of ventures involved in construction and operations of highways recoverable from toll fees; FIE’s involved

in infrastructure development are entitled to 100% exemption from enterprise income tax for initial 5 years and 50% thereafter;

Guangxi: FIE’s operating in infrastructure development, transportation or energy projects in Nanning, coastal cities, border open towns, and development zones are entitled to 100% exemption from enterprise income tax for years 3 to 10, and at 30% from years 11 to 15. FIE’s involved in energy, transport or port infrastructure are exempt from local income tax.

Inner Mongolia: FIE’s engaged in building or operating toll roads may be exempt from business tax levied on such roads for 8 years from commencement of operations.

Tibet: FIE’s involved in water conservation, transportation, other public facilities, energy, city or town infrastructure developments either BOT, BOO, BOOT may obtain 100% Business Tax, Enterprise Income Tax and VAT exemptions prior to recovery of capital.

Chongqing: FIE’s involved in development of resources, or infrastructure development in power stations, airports, roads, bridges, ports, docks, water conservation, water plants, low-cost residential housing, and other developments are exempt from local income tax, and shall pay the lowest land remising fees applicable via installment over the initial ten year period; FIE’s involved in building or operating of toll roads will be business tax and enterprise income tax exempt for the period during capital recovery.

SUMMARY: These are a selection of the incentives available. As demonstrated elsewhere, the Dezan Shira China Group has extensive contacts with all Regional Governments at the highest level.

With our unique blend of standalone Market Research, Logistics, Legal & Tax Consultancy businesses, each with their own, dedicated staff and separate offices and licenses throughout China, collectively we can advise and update on all matters of available tax and investment incentives, in addition to providing market research, brand positioning, consumer evaluations, business development planning, operational budgeting, China national marketing strategy in addition to the practical legal, structuring and taxation aspects of establishing operations in the Western Regions and

elsewhere in China.

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CHINA MARKET ANALYSIS

Market Research, Consumer Evaluation, Brand Positioning, & Competitor Analysis Throughout China



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CHINA'S WEST – WHERE'S THE MONEY?

Don't get misled by all the photos of camels, deserts, mountains and enigmatic, but obviously low-income locals – The West is certainly photogenic but has a lot more to offer to the astute businessman. You just have to look a bit harder. Huge Provincial populations often equal low incomes – but when those large populations are supporting Provincial capitals, that is where the money is. Here is a comparison of Provincial populations supporting their respective capital cities.

| Province | Capital | Average Professional Income (RMB p/a) |
|------------------------------------|------------------------|---------------------------------------|
| Xinjiang: 19 million | Urumqi: 1.5 million | 84,000 |
| Gansu: 26 million | Lanzhou: 1 million | 54,000 |
| Qinghai: 5 million | Xining: 1 million | 48,000 |
| Ningxia: 5 million | Yinchuan: 500,000 | 42,000 |
| Inner Mongolia: 24 million | Hohot: 3.5 million | 48,000 |
| Tibet: 2.6 million | Lhasa: 1 million | 84,000 |
| Shaanxi: 36 million | Xi'an: 3 million | 78,000 |
| Sichuan: 94 million | Chengdu: 4.5 million | 78,000 |
| Yunnan: 46 million | Kunming: 3.5 million | 78,000 |
| Guizhou: 35 million | Guiyang: 2.5 million | 60,000 |
| Guangxi: 45 million | Nanning: 4 million | 60,000 |
| Chongqing Municipality: 31 million | City Proper: 7 million | 72,000 |

It is noticeable that both Urumqi and Lhasa enjoy high professional income levels – probably due to Central Government providing higher levels of funding to quell civil unrest issues as both have historic border dispute issues. Elsewhere, the cities of Chongqing, Xi'an, Chengdu & Kunming all appear to offer reasonably high salaries to their urban professionals – we put these at about 14% of the total urban population. Discounting Lhasa for political reasons, just those five cities together then represent a market worth purely for urban professionals of some RMB 212 million. Assuming a third is disposable income (national average for this group), targeting the West's young professionals alone is worth RMB 70 million (USD 8.52 million) divided between its five major cities. Enough to support a few brands... [Info: DSMR Ltd China Market Research Team, Western Regions Project 2001.](#)

WHEN WAS THE LAST TIME YOUR CHINA ADVISORS...

Met with the Head of the State Tax Bureau?
 Addressed the HK-Guangdong Economic Forum over Hong Kong's Integration?
 Talked about WTO implementation with the Chinese Ambassador to the EU?
 Discussed Olympic Tender Bids with the Head of the Preparatory Committee?



If you need to know what is really going on in China, you need to talk to people with the ear of those who really make things happen. There are many Chinese consultants, but there is only one Dezan Shira China Group. If you want to discuss China business strategy, PRC operational development, market research, corporate structuring, tax, logistics or where the market opportunities really are, you would be better off talking to us.

The Dezan Shira China Group. We Get Out There and Make it Happen.

Chairman's Office: Contact Chris Devonshire-Ellis, tel: (010) 6462 2175.
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LOGISTICS WITH RESPECT TO CHONGQING

By Jamie Gwynn, Dezan Shira & Associates



Although mountainous and some issues with fog primarily in the winter, Chongqing is gearing up to be the distribution hub of the West. Historically, many foreign manufacturers have sided this city for neighboring Chengdu, however, with the support of the central government, perhaps your business may be considering Chongqing. Below is some information on warehousing and cargo transportation related to the city:

Warehousing in Chongqing

Chongqing boasts over one million square meters of storage space, however about 70% of this space is considered unsafe or unusable to store goods. Most of these warehouses were scattered all throughout the city in some 100+ different locations. The high development of these facilities occurred back in the planned development era.

When searching for appropriate warehousing in Chongqing please keep in mind as to whether or not the facility is legal to store your goods. Many old factories and farmhouses have been converted into warehouse space and what may seem like a bargain may turn out to be a few more headaches that what it is worth.

Pricing

As with most cities in China, the variance of the cost to rent warehouse space varies based on whether or not you want a basic facility or the Cadillac version. Additionally, we have found that it would be wise to have a person native to that region who speaks the lingo negotiate your rates for you. Our research had indicated that most basic warehousing ranges between RMB 0.5 per m² per day to RMB 3 per m² per day. However, when the guy who could only speak Putong hua and Shanghai hua attempted to negotiate prices, the best we could find was RMB 8 per m² per day. The lao wai effect was not taken into account as part of this survey.

Contacts

Here are a couple of people to consider contacting if you are in need of dry storage:

| Company | Ownership | Total m ² | Available m ² | Contact Person | Telephone |
|------------|-----------|----------------------|--------------------------|----------------|---------------|
| Jiang Bei | Gov't | 10,000 | 600 | Mr. Duan | 023-6785-4360 |
| Er Qing | Gov't | 1,200 | 400 | Mr. Wong | 023-6883-2562 |
| Chuan Shun | Gov't | 10,000 | 200 | Mr. Zheng | 023-4738-1042 |
| Qing Gong | Gov't | 14,000 | 9,800 | Ms. Liao | 023-6253-3895 |

Of course if you are looking for warehousing in Chongqing, China Logistics Ltd. would be happy to help you get it sorted out.

Transportation

Sea

By far one of the biggest competitive advantages that Chongqing has is its access to the “Golden Waterway.” The geography makes for a natural location of port and provides connectivity via the Yangtze River to International waters via way of Shanghai on a year round basis.

Currently, Chongqing boasts 41 ports that handle over a million tons of volume per year. This is sure to increase with the completion of the Three Gorge Dam project. River shipping is estimated to increase to 50 million tons annually with a reduction of transportation costs by 35%. The dam will contain 5 locks each being 280 meters long X 35 meters wide with a water depth of 5 meters yielding the ability to handle 10,000 DWT (dead weight tons).

Truck

The cost to transport goods via truck to Chongqing is still more expensive than if you ship between the major cities of Shanghai, Guangzhou, and Beijing. This is mainly due to the fact that the coordination of moving goods in both directions is not as advanced. Additionally, the challenge becomes far greater in the specialty goods arena for items such as refrigerated cargo and dangerous goods. Adding to the difficulty is the fact that the vast majority of manufacturers are not shipping in FTL quantities to Chongqing.

Outlook

It only get better. The China Government is doing their part to help. The current 5-year plan involves a considerable amount of spending on Logistics infrastructure particularly in the West and particularly in Chongqing. Improvements will come in the way of reduced transportation time particularly with improved highway connectivity and rail capacity.



**THEY SHOULD HAVE CALLED
CHINA LOGISTICS LTD...**

Messes & Problems Solved:

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E-mail: info@PRCLogistics.com

Web: www.PRCLogistics.com

China Logistics Ltd is a Dezan Shira Group Company

JUST IN CASE YOU GET SENT TO: URUMQI

Urumqi (Wu Lu Mu Chi) is the Provincial capital of Xinjiang Province in China's Far West. A city of some 1.5 million, it is predominantly Han Chinese but with a strong Muslim population, ethnic Uygers, Kazaks, Uzbeks, Tadjiks all living and working in the city as they have done for centuries. This is the heart of the Silk Road.

Urumqi is connected via air to other destinations in India, Pakistan, Russia and the neighboring Central Asian States of Kazakstan, Tadjikistan, Uzbekistan and via rail to Kazakstan, making it an ideal base for businesses involved in Central Asian trade. Despite the odd press report, Urumqi is a safe and relatively quiet city - everyone here is too busy trading and making a crust to bother too much about religious differences. And what trading there is to be had! Xinjiang produces some of China's most delicious fruits, nuts and excellent mutton as well as a variety of minerals and other products such as cotton, tobacco and other consumables.

The City Centre is quite well developed with large modern glass and steel tower blocks springing up around People's Square - a measure of Urumqi's relative wealth. Hotels to stay include the Holiday Inn (0991 281 8788) and the glitzy Hoi Tak (0991 232 2828) both providing high standard five-star accommodation and facilities and centrally located.

Food here is firmly in the Turkic camp, with kebabs, nan bread, fresh salad vegetables and glasses of local red wine to wash it down with. Banquets will commonly feature a whole roast lamb - quite excellent and a must for any visitor. Urumqi's attractions are not quite so obvious, although the Provincial Museum is one of the best in China and well worth visiting - a fascinating collection of ancient Silk Road artifacts including near perfectly preserved mummies dug from the sands

of the Gobi and dating back nearly 3,000 years. Evidence of the collision between Western and Eastern cultures is everywhere - from the old part of the city and its vibrant bazaars and fruit market, to the general mix of features on people's faces - no one looks the same, Urumqi is a real cultural melting pot of sounds, sights and tastes quite different to anywhere else in China.

Reasonably close to Urumqi lie the Tian Shan Mountains and the Glacier-fed Heavenly Lake, a two hour drive north and well worth a visit. Stunning, year round snow-capped Mountains and an interesting drive past ethnic, nomadic Kazak Yurts, the latter moving from area to area to graze their livestock. Heading East, out into the barren dustbowl of the Taklimakan Desert, three hours away is the town of Turpan, an ancient Silk Road stop-over now renowned for its excellent fruits and grapes - wine from Turpan's Grape Valley counts as China's best and it is quality stuff - trips to the vineyards to sample some of the local vino can be made here in the summer months.

Further South, reachable by air or by train (thirty-six hours, skirting the Northern Gobi) is Kashgar, also a famous Silk Road City and a well known market town - 100,000 farmers, herders and traders descend here every Sunday to trade everything from Yaks to almonds. Kashgar really is far out - you are well on the way to Pakistan here. Stay at the Ge Ah Hotel (0998 261 4954) and experience the real Wild West!

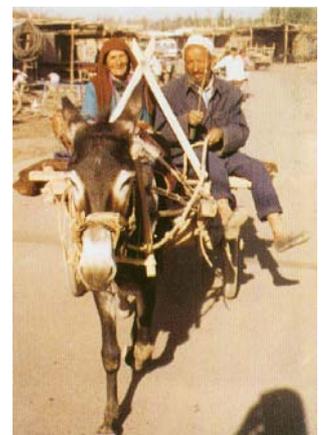
Xinjiang is hot in the summer so bring plenty of short sleeved shirts - and cold in the winter, so wrap up warm! A fascinating province and deservedly regarded as one of the most beautiful areas of China.



Kazak Yurts at Heavenly Lake



Kashgar market - an amazing, bazaar with people just one of the attractions



The Local Taxi Service. Really.