CHINA BRIEFING

A Practical Monthly Guide For Practical China Business January/February 2003

China Briefing Online: **www.china-briefing.com**

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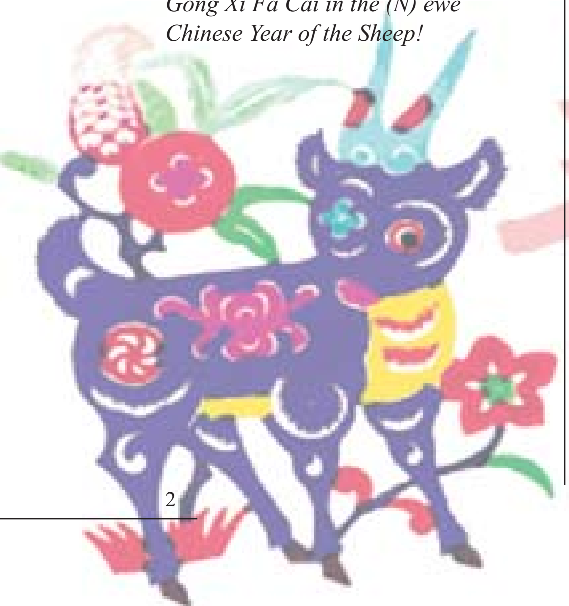
Gong Xi Fa Cai in the (N) ewe Chinese Year of the Sheep!



Happy New Year!!

Welcome to this expanded new look edition of the January 2003 issue of "China Briefing" - this issue covers both January and February - the next CB will be out at the very beginning of March. We hope you like the new look!

CHINA STRATEGIC LTD.

A restructuring of DSMR & China Logistics Ltd.

We have recently completed a merger of these two companies which will now be known as China Strategic Ltd. Both DSMR, in terms of market research, and China Logistics, in terms of infrastructure implementation, are essentially development businesses so a combination of both makes more sense to us. We found having two companies in this same 'research' field was confusing to our clients.

So now we have, with China Strategic, one company dealing with China Development issues, while Dezan Shira & Associates provide technical expertise in the form of China law & tax structuring. Both research and logistics functions have been folded into China Strategic, and their new website is up and running at www.chinastrategic.com. See their articles and adverts elsewhere for information about their services.

China Briefing Marketing Manager

A welcome to Laetitia Henon-Hilaire, who having completed an internship with us now joins us full time and will be handling the on-going marketing and distribution matters for this very publication. She joins us having majored in international relations from the University of Strasbourg.

Meetings with Shanghai Government

Continuing our policy of maintaining good Government relations, we were invited to dinner by the Shanghai Government to celebrate the city obtaining Expo 2010. We had meetings with Shanghai Vice Mayor Jiang Sixian at which issues concerning some of our clients investments in Shanghai were brought to the table to get matters smoothed over and progressing. It was a great evening and with high spirits generated by the Expo issue went on until the small hours at Number One Xintiandi. Thanks to the Government for the honour of attending and we look forward to Shanghai's growing prosperity over the next decade. The city is in very good hands.

Well Done to Volvo

Congratulations to Volvo Aero Services, new Rep. Office in Shanghai, handled by Dezan Shira & Associates Shanghai Office who also are retained to take care of their tax filing and accounting obligations. Volvo have built up an interesting business in the aviation engine and components industry with parts and maintenance also being part of this. Good to see them in Shanghai!

For information about tax filing and accounting issues please see the Dezan Shira & Associates site at www.dezshira.com or contact our relevant regional office to make an appointment.

Annual Conference in Sanya

Operating some eight offices across the country with two businesses, (Dezan Shira & Associates, and China Strategic) plenty of staff and a well-known publication is not easy when it comes to keeping everyone on track and unified. Every year we send all of our personnel away for three days training, conference and fun, this Christmas we were all off to Sanya, China's premier winter sun destination in Hainan Island. With flights coming in from Beijing, Shanghai, Shenzhen & HongKong it was a pretty full hotel by the time we'd finished - but we had a good time and everyone enjoyed themselves. It demonstrates our commitment to our staff and desire to provide good service as well as being a nice thank you to all our staff for their 2002 efforts as well.

Chinese New Year

Finally, a hearty "Gong Hei Fat Choi" (Long Life & Prosperity) to you all during the Chinese New Year festivities as we welcome in the Year of the Sheep and look forward to a fun and successful 2003.

Gong Xi Fa Cai!

Chris Devonshire-Ellis
Dezan Shira Group Chairman

Well done to Volvo Aero - new office in Shanghai. Volvo's Stephen Glessman pictured here with Dezan Shira's Julia Ni.

Dezan Shira & Associates and China Strategic Senior staff enjoy themselves at the Group resort and annual conference in Sanya, Hainan Island.

New China Briefing Look

Thanks here to our old friends Impact Productions & Design-Beijing, handling the new look for this publication (we hope you all approve) and also to Network Sense who handle China Briefing online. Impact can be contacted at (86-10) 6581 8460 - speak to Eric Roldan, while Network Sense can be reached at (86-21) 6467 7726, talk to Jennifer Ho.

Tax Filing Obligations for Representative Offices & Wholly Foreign Owned Enterprises

By Emily Zeng and Alberto Vettoretti, Dezan Shira & Associates, Shenzhen Office

With different investment structures available to run businesses in China, the puzzled foreign entrepreneur is continuously faced with a variety of tax implications and scenarios. Let us have a brief look at the main tax filing requirements and the implications for the different set ups:

1. Representative Offices (RO)

Generally speaking, the tax structure in a RO is quite straightforward; both monthly and quarterly tax filings are required:

Monthly Filings:

Individual Income Tax (IIT). With an official position in the RO, both chief representative, other representative and local employees should file IIT accordingly. Rates to be found on our archive section at www.china-briefing.com - July 2002 issue.

Business Tax (BT). If your holding company operations do not qualify your RO for tax-exemption, you would need to file BT based on the monthly officially declared expenditures.

Quarterly Filings:

Foreign Enterprise Income Tax (FEIT). Without the tax exemption status, ROs need to file FEIT based on the quarterly expenditures. These must basically include all the expenses supported by official invoices such as: chief representative and employee salary, office rent, management fees, telephone bills, traveling expenses, and so on.

All expenses should be declared

Combined BT & FEIT amounts vary regionally, here are some examples of the combined amounts against your total declared overheads:

- Shenzhen : 7.65%
- Shanghai : 9.76 %
- Beijing : 9.76%

So budget for this on top of your monthly declared overheads.

Tax Exemption

If your holding company qualifies either as a manufacturing entity or can demonstrate purchasing capabilities from China, the RO can apply for BT and FEIT tax exemption at the related tax bureau; once approval is obtained, the RO can file zero for BT and FEIT accordingly.

Finally do budget for annual audit fees and monthly FESCO fees as these would also affect your operational expenses.

2. Wholly Foreign Owned Enterprises (WFOE)

If you are running a manufacturing WFOE in China, the required tax obligations are :

Monthly Filings:
Individual Income Tax

This applies to expatriates and locals holding official positions within the WFOE structure. If expatriates are working in the WFOE as part of a project during a tax year for less than 183 days and their salaries are paid overseas, then the WFOE does not have to file IIT on these expatriates' salary.

VAT

For all those manufacturing enterprises involved in export activities, the VAT refund could be an issue of long-term receivables. In China generally, the VAT refund process could take up to 18 months so plan this out carefully in your cash flow projections!

Stamp Duty

The stamp duty tax ratio is relatively small at 0.03% to 0.05% of any contract value. Since this is a small amount, it is commonly ignored and filings are not done timely and properly and in some cases are not done at all! Please be careful here as the fine for late filings will be at least 3 times the outstanding tax amount due so it could add up to quite a substantial figure.

Quarterly Filings:
FEIT

Manufacturing enterprises with scope of operations of more than 10 years are generally given a tax holiday period of 2 years of total FEIT exemption and three years of 50% FEIT reduction starting from the first profit-making year.

Interesting to note here is that whether you have a profitable year or not sometimes does not only depend on your own internal bookkeeping arrangements. After the financial year ends, a CPA firm (as part of the compulsory annual audit procedure) will visit your company and audit the bookkeeping system and the related figures. The CPA firm will report to the tax bureau for the annual inspection and the auditors will eventually base their final computations and assessments according to the related tax law guidelines and would in some cases adjust the costs and profit accordingly. For example: fines or penalties incurred during the year in dealings with different government departments (such as customs or tax bureaus) and other over-budgeted entertainment expenses would not be treated as legitimate costs to reduce the profit basis. So be careful about doing your bookkeeping and make sure you declare figures according to the local tax regulations so as not to have surprises later on!

VAT Refund Filing:

For VAT monthly filings and VAT refund filings, your accountant needs to prepare a complete set documents and match the figures in the VAT filing forms with the financial statement. As a result, the accounting department would have to finish the previous month bookkeeping on time before the 10th of each following month (VAT filings are due then). Make sure that you have enough time in order to respect the deadline for the filings.
The quarterly VAT filing for refunds will also require an updated foreign currency clearing situation with the related custom papers in order and will have to be monitored on a weekly or even daily basis as not to rush on your accounts by the 15th of each quarter when the filing is due.

Annual Filings:

Property Tax. If you have built your own premises and buildings in China you are required to file for property tax annually. As an example, in Guangdong province, WFOEs can be exempted from property tax for 5 years from the completion of the building itself and the issuance of the WFOE business license. As you are basically given a tax-free period, please be careful after this expires and start to pay this tax timely. As calculations can be quite complex please call our regional offices for an assessment.
Car and Truck Tax (Vehicles Tax). Without this tax timely paid your WFOE cars and trucks will not pass the annual inspection as is legally compulsory.

Business Tax

If your WFOE is involved in the services industry, it will be subject to Business tax instead of VAT. Varying according to different businesses, the ratio for general services like consulting or restaurants is 5% on the invoice amount. Call our regional offices if you need an assessment of the exact BT applicable to your business.

Income (Profits) Tax

In order to repatriate your profits back home you need to file and pay Income Tax on your China operations. Nationally this is at 33%, although regional variations apply in Free Trade and Special Economic Zones where it can be as low as 15%. Tax holidays also kick in, making the situation very much a bespoke affair. The procedures for paying Income Tax are relatively straightforward (all tax bureau make payment easy!) but there is a mechanism to go through to complete all payment, registration, transfer of RMB to foreign currency, and transfer from China to Overseas procedures to go through. Please see the March 2001 issue of "China Briefing" for further details or contact our regional offices for assistance with maximizing this.

Repatriation should not be a problem

To conclude, advise from us: **file your taxes on time!** It is increasingly difficult to negotiate fines for late payments with tax bureau officers. The tax collection system at most tax bureaus has now been fully computerized and late filings and other non-compliance issues will be immediately spotted by the officials assigned to the supervision of your WFOE or RO.

During 2002, new tax collection administration laws were issued and are particularly harsh in dealing with late and incorrect filings. Non-compliance is considered to be a offence by the tax bureau officials and the penalties for late payment can be up to five times the amount due, plus the original tax figure. **Ouch!**

It makes sense then to ensure you are in compliance and remain that way.

Please contact Dezan Shira & Associates at info@dezshira.com if in need of tax filing support, bookkeeping or tax solutions.

Website: **www.dezshira.com**

Annual Audit Requirements

By Alice Wei and Sabrina Zhang, Dezan Shira & Associates, Beijing Office

Under current legislation, all Foreign Invested Enterprises (FIE) such as Wholly Foreign Owned Enterprises (WFOE), Joint Ventures (JV), and Representative Offices (RO), are required to be audited on an annual basis. This statutory requirement has to be met prior to business license renewal every year.

The deadline for the filing of annual audits is by the end of April of the following year (ie: your 2002 audited accounts must be filed latest by April 2003). FIEs can only distribute and repatriate their profits back to their home country after the annual audit and settlement of their relevant income tax liabilities.

Annual audit of FIE statutory accounts must be conducted by a firm of Certified Public Accountants registered in the PRC under PRC regulations. Previously, only local Chinese CPA firms were permitted to perform the audit function, and international accounting firms were not allowed to enter Chinese audit field directly. Since 1992 international accounting firms were given permission to establish joint-venture accounting firms with local practitioners.

Key Areas of Annual Audits

When a CPA performs an annual audit, in deciding on the appropriate audit procedures for income statement and balance sheet accounts, the auditor should assess the risk of error and fraud in those accounts. What are the key areas they are most concerned about? We can divide this into three areas:

1. **Profit Should Not Be Under-Stated.**

The sales figure is a critical part of a review. Usually the following issues are the control objectives: Sales cut-off check ensures that all valid sales are shipped, recorded and properly billed; customer contracts are properly setup, approved, invoiced, priced and executed; pricing is accurate, updated and monitored by management; and gross margin is appropriate on all sales transactions.

2. **Cost Should Not Be Over-Stated.**

Cost of sales/revenues should represent all transactions for products shipped or services provided during the year and be properly recorded. This requires a thorough costing system review. Since this is a complex issue, please contact us over this matter if you are experiencing difficulties.

3. **Revenue & Cost Accruals**

Expense / cost is not recognized on a cash flow basis, but at the time of its contribution to revenue. A cut-off test is often employed to check if revenue and cost are properly accrued at the year end.

These concerns are based on one important accounting principle-**prudence**. Recently, there is a de-

Dear Prudence

veloping trend of FIEs, instead of recording profits, reporting a loss. With this growing, the tax bureau and government are devoting more effort in auditing FIEs. As a result, if a company reports profits below the industry average or is in deficit in consecutive years, the auditors will monitor the possibility of any potential attempt to conceal profit to evade taxes and will evaluate transfer pricing issues within related party transactions.

Another issue that needs to be catered for, especially for 2003 audits is that in line with China WTO agreements, the PRC Central Government promulgated its "Revised Uniform Accounting System" and "Basic Accounting Standard for Foreign Investment Enterprises" at the beginning of 2002, which effectively brought a new accounting system into

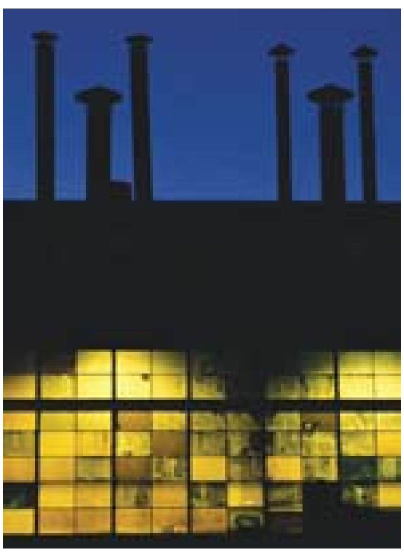
China. Companies should adjust their accounts when there is a conflict with the new standard. For further information, please contact our pertinent regional office for detailed advice.

Annual Audit Preparation

Conducting a sound internal review prior to annual audit is a good idea. Make sure your bank reconciliation report is completed for bank accounts, that petty cash has no major discrepancies, and conduct a complete check of accounts receivables and accounts payables. An overall inventory stock take at the year-end is also a must for manufacturing entities.

The company should review its financial policies, such as depreciation method, costing system, pricing policy, not only for the purpose of annual audit, but also for good future internal management.

Please have all these following available for the auditor before they arrive: Accounting Vouchers, Account Books, Warehouse Records, Financial Statements, Tax Filing Records, Bank Statements, Invoices, Contracts, Vendor Statements, and other relating document and reports. If you can check some of these items yourselves prior to audit, you may well pre-identify some problems themselves.



Stock taking is a must

Representative Offices

All representative offices (excepting those that have tax exempt status) should be audited by a Chinese CPA each year.

Because ROs taxable income is determined by three methods: the cost-plus method, the actual revenue basis, and the deemed commission method, these different areas will be monitored by the auditors for the purposes of adjusting the taxable income of the representative offices as follows:

1) The Cost-Plus Method

The Cost-plus method is popularly used to calculate the deemed taxable income. All expenses incurred by or related to the representative office must be included in the office expenses to calculate the deemed taxable revenue (deemed taxable revenue = office expenses / 85%). The expenses include the rental, transportation, telephone, salary, office purchases, entertainment, etc, regardless whether they are paid from the RO or directly from its head office. Our clients often put forward questions such as "If the office rental or salary of the expatriate is paid by the head office, should they be recorded as the expenses of the representative office?" Undoubtedly, they are the expenses of the representative office. Another notable point are salaries paid to resident Chief Representatives - instead of paying part offshore and part in China, the entire salary of the Chief Representative or Representative should be included in the representative office's expenses, regardless whether he has traveled to China.

2) The Actual Revenue Basis

Detailed contracts signed between the head office and its affiliate company showing the commission rate or detailed service fee amounts and other documents should be provided to the auditors. The auditors will also investigate any undisclosed transactions to determine if there is further taxable income.

3) The Deemed Commission Method

All the contracts relating to the agency services performed in China should be provided. If the commission is not stated in the contracts, 3% deemed commission will apply.

Based on the adjustment of the taxable income in the audit report, the annual Business Tax ("BT") and Foreign Enterprise Income Tax ("FEIT") filing should be completed within four months after the end of the tax year. The Chinese tax year is a calendar year, i.e. from 1st January to 31st December. Please note in the event of delinquent of annual FEIT and BT filing and payment, a surcharge for overdue tax payment equivalent to 0.05% per day on the overdue taxes will be imposed.

After the tax authorities review the audit report and the annual filing returns, the tax authorities will issue a notice that either the representative offices should pay additional tax, is correct in it's calculations or is entitled to tax refunds.

In the process of annual audit, the auditors not only pay attention to the Corporate taxes, i.e. BT and FEIT, but also other tax issues such like Individual Income Tax and Stamp Duty, etc. These amounts may on occasion only be small - but significant penalties (up to five times the amount due) await the unwary or naïve. It pays to ensure you are in compliance.

Choosing An Auditor

Most small to medium FIEs are prefer having accounts audited by a reputable accounting firm with international standards, while at the same time, cost and benefit factor are also issues to consider.

In addition, in view of the complexity of the China tax regulations, it is recommended that foreign investors should keep themselves abreast of any new rules and the constant changes to these regulations. Your Accounting Firm should demonstrate a commitment and depth of knowledge to you as well as showing they are capable of understanding international business.

Please contact our relevant regional office or email to info@dezshira.com if in need of audit support or filing services.

Just in Case You Get Sent to:

XI'AN

Xi'an is the capital of Shaanxi Province in China's North West and is an ancient city with a fascinating history and culture. It was, depending on your point of view, either the start or the end of the Silk Road, and was China's capital (then known as Chang'An) for two thousand years. Today it is best known for it's Terracotta Warriors, however the city itself is historic with massive city walls stretching some 12 miles around the centre (Xi'an has what Beijing has lost) and several important sites of interest with a variety of Pagodas, towers and temples all well preserved.

It is very much a forward looking city and has made huge strides in the development of its engineering and hi-tech industries, also boasting some of China's finest education facilities. Strategically located and possessing great infrastructure, this is very definitely a key city to consider if looking to manufacture and sell in China's Northern and Western markets.

Places to stay include the Hyatt Regency (029) 723 1234, Shangri-La Golden Flower (029) 323 2981, and Sheraton (029) 426 1888, all in the city centre. The local Bell Tower Hotel (029) 727 9200 is also well worth a mention and is less expensive and with welcoming staff.

The Warriors themselves are about an hour's drive out of the city, a vast site still only partially excavated. The drab grey clay is not in fact how they appeared - excavated they are painted in garish and bright colours - exposed to sunlight these fade and the Chinese are working on technology to preserve the ancient paints used. In most cases many of the discoveries have been carefully re-buried for the time being to preserve their original state until a solution can be found to permit permanent display without damaging them.

Bars of note in the city centre are based along Dong Dajie, several nightclubs along here, the best of which is "1 to 1", while "The Old Gun Club" and "The Ferryman" feature live music every evening. A "Lap Dancing Bar" (ahem) exists along Heping Lu just around the corner from the Hyatt. We of course have conducted research into this and can advise this is a form of "Shaanxi" rather than Californian dancing, and is ethnic rather than erotic. But make sure you take the bills out of your trouser pockets before you go home - you don't want to get into unnecessary trouble with the spouse as the chits have "Lap Dancing Bar" written on them! The "Royal Opera" club, again just close to the Hyatt is also a busy joint and good fun, while Chaplin's in the Bell Tower Hotel gets a variety of expats checking in as well.

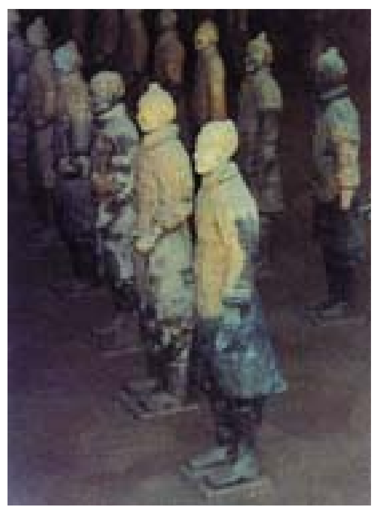
Food-wise, Xi'an has a sizable Muslim population (from the old Silk Road trading days) which offer some great restaurants and belly dancing style activities and music in the Muslim quarter itself - you can tell the Muslim restaurants as they're the ones with blue, rather than red, lanterns hanging outside.

There is also a trendy Portugese and French restaurant in the Northern end of town - close to the Bell Tower Hotel.

Xi'an as mentioned is a key business location as well as being a great weekend away - enjoy the history, culture and have a good time!

Xi'an is one of China's few remaining walled cities

City Wall Watch Tower



Despite Centuries of Practice, they never quite managed to learn the command "Stand At Ease"

Establishing Your Sourcing Office

An Overview by Jamie Gwynn, Operations Director, China Logistics Ltd.

China may seem the ideal place for you to procure component parts for overseas final assembly or even finished goods for overseas sales. Although you know (and probably your boss knows) that China is definitely the place to be, your board of directors are requiring that you are able to justify this gut feeling with tangible bottom line figures.

In China, obtaining this information can be difficult. Sometimes it may appear like a chicken and egg scenario. How can I obtain the information without jumping in head first? The solution is basically a multi step process, involving opening a series of "doors" one at a time.

Corporations typically can easily justify spending a few thousands of dollars in exploring the China option. Particularly, if you can deliver some reasonable figures in advance before heading off on what may be perceived to be an all expense paid "jolly" to the Far East by some of your HO staff. You need to ensure that you are delivering detailed answers when you report back.

The next step of the process involves the development of a procurement office as is the focus of this case study. The issue is - stump up the cash and overheads for a fully fledged Representative Office - licenses are issued for three years - or how to set up a temporary facility to 'test the waters' and see if you really do have a consistent market here from which to structure your international purchasing.

This is a real life situation we had to handle as part of a major international vehicle manufacturer looking to ascertain whether or not China is a suitable market for purchasing auto components from. However the situation could just as well be applied to any purchasing strategy - how to test the water in China without getting your feet too wet?

The Task:
Formulate and test in production, tangible real dollar savings to the supply chain prior to making a long term commitment.

The Solution:
Establish a temporary project office in China.

Determining Your Structure:
The first task involves determining the structure of the office that you wish to establish. This varies depending on the scope of your business as well as your own unique business culture.

For businesses that are quite complex involving sourced products of many different components, you may want to temporarily send over your own team of engineers as well as your experienced purchasing staff. These teams would more than likely be in place for a couple of months.

For less complex purchases such as office supplies, you may only want to send your staff over for specific milestones in the project. In this case you would trust the management of the project office to a reliable 3rd party. The unique culture of your business will also determine the structure in which you establish your office. Some companies like to be very much hands on whereas others are more comfortable with outsourcing to third parties.

Temporary Offices can allow you to conduct short-term research into the China market with full professional support at hand.

Establishing Your Temporary Infrastructure:
Regardless if you decide to send over your own staff for several months or completely outsource to a third party, you will still need to hire on the services of a China business implementation company such as China Strategic. Why?

You know your business better than anybody else. You understand doing business very well. However, your experience with doing business in China is possibly limited in terms of both experience and infrastructure. This is where a 3rd party who focuses on China business implementations is beneficial in keeping your project on schedule and on budget.

China Strategic can provide staff support from our own employees to help you achieve your goals without the need for you to hire directly.

The third party should be able to accommodate you first by allocating space for your project office. Depending on the size of the project and the amount of people involved, this space could be located in house of the third party or off-site at a "project office" facility located in a serviced office such as the Executive Centre.

These serviced offices can vary in size from a two person to about a 12 person space with lease terms that are on a flexible month-to-month basis. The office licensing issues should be covered by your third party, thus eliminating this need for your company until you decide to set up a permanent office.

The third party should also be able to provide you with experienced local staff. For instance, China Strategic has several permanent full time sourcing staff as well as several permanent full time engineers from various industry sectors.

By hiring these staff on a full time basis, China Strategic is able to ensure properly trained personnel with the right experience and of course the ability to communicate in Mandarin as well as English.

Such staff are provided for your company's projects on a temporary basis, thus taking out the need for you to waste time and money in recruitment. Additionally, China Strategic employs several overseas Western and Asian expats with practical business experience to ensure that the job is handled to your required standards.

Of course, some companies may have needs for individuals with a specific technical background. In this case, your third party should be able to source these individuals for you on a temporary basis.

Meeting Your Deliverables:

Now that your temporary infrastructure is established if you are sending over your own personnel to manage the project it's time for a meet and greet with your selected third party provider. Outline the project scope, objectives, and deliverables. Then, perform a team building exercise to meld everyone together. After which, it's time to get down to business by performing the allocated tasks such as:

- Conducting Supplier Visits
- Supplier Selection and Contracting
- Production Implementation
- Ongoing Management and Support

A lot of work summarized in 4 bullet points!

Upon Completion:

Pending successful completion in getting the procurement project up and running, the next step is to determine how you want to provide support for your ongoing business requirements in China:

- Does your company want to fully establish its own procurement office in China?
- Does your company want to outsource these responsibilities to a third party?
- Does your company want to manage these activities from overseas?

Final Word of Caution:

On a worldwide basis, procurement functionality generally opens itself up to opportunities of fraud and kickbacks. For assistance with this project, ensure you are using a trusted and reliable partner. Companies, like ours, with a strong infrastructure and who do the work in house are the safest bets versus people who merely have overseas sales offices and subcontract most of the work in China. Even if they list offices on their websites one should verify that they are genuine - many are not. Check your supplier really has PRC infrastructure and is not merely sub-contracting it. You need to deal with the real source. Don't be fooled with cheap imitations that charge a lot. Your supplier is either in China or they're not. Shop around and check them out.

For further information on setting up temporary offices for research into the China market please contact Jamie Gwynn, Operations Director at China Strategic for details.

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Islamic Business in China

A China Strategic Market Report

By Laetitia Henon-Hilaire and Sacha Cody, China Strategic Ltd.

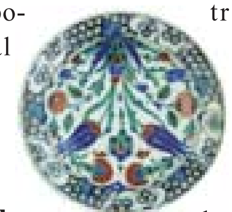
China has a long history of Islam dating back several thousand years, with ten Islamic minorities amongst the fifty-two minorities that China recognizes amongst it's own population. Due to their religious creed, Muslims have certain requirements, especially in food, in order to live by their chosen discipline. This is sometimes very hard to adhere to in China, which as a country is not actively Muslim and is still officially an atheist society. Opportunities exist therefore for other Muslims in countries such as Malaysia and so on to service China's Muslim community in accordance with their doctrine. First though, let's take a look at China's Muslims from a market niche perspective.

China identifies the following peoples as being part of it's Muslim minorities:

Name	Population (millions)
Hui	8.6
Uyghur	7.2
Kazak	1.2
Kyrghz	0.14
Salar	0.08
Dongxiang	0.37
Bonan	0.012
Tadjik	0.33
Tatar	0.005
Ozbek	0.014

Most of these are concentrated in Xinjiang Province (12.5m) with the rest centred around Ningxia, Gansu & Qinghai. Remember that these figures are for Chinese nationals only and do not include immigrants. Immigrant figures are difficult to pin down due to the nomadic nature and wild borders of China's Far West, with especially Kazak, Uyghur and Kyrghz populations tending to be porous in their movements. This may add several million to the official population. Pockets of Muslims also exist all over China, but especially in Xi'an, where historically the Silk Road began, with many of the ancient Muslim trading families still living in the city, Heliongjiang and Beijing. Even Shanghai's Muslim population is unofficially estimated to number some 40,000 and Mosques exist in all major cities including southern locations such as Guangzhou and Shenzhen.

In terms of transient population then the real figure at any one time may be as high as 40 million.



China - Islamic Trade

There are 57 members of the UN Organization of Islamic Conference (www.oic-org-un.org), a body that regroups Islamic countries. These 57 countries are: Afghanistan, Albania, Algeria, Azerbaijan, Bahrain, Bangladesh, Benin, Brunei, Dar-us-Salaam, Burkina Faso, Cameroon, Chad, Comoros, Ivory Coast, Djibouti, Egypt, Gabon, Gambia, Guinea, Guinea Bissau, Guyana, Indonesia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, Kyrghistan, Lebanon, Libya, Malaysia, Maldives, Mali, Mauritania, Morocco, Mozambique, Niger, Nigeria, Oman, Pakistan, Palestine, Qatar, Saudi Arabia, Senegal, Sierra Leone, Somalia, Sudan, Suriname, Syria, Tajikistan, Togo, Tunisia, Turkey, Turkmenistan, Uganda, United Arab Emirates, Uzbekistan, and Yemen.

In 2001, China's share of trade with Islamic countries amounted to about 7% of its total trade.

Let's have a look at China's top five Islamic trading partners:

Malaysia

The Chinese and Malaysian Governments have signed many bi-lateral agreements in recent years, including agreement on avoidance of double taxation, trade agreement, agreement on investment protection, agreement on marine transportation and the agreement on air transportation. Compared with US$0.368 billion in trade in 1974 when the two countries first established diplomatic ties, the bilateral trade volume increased to US$5.279 billion by 1999. Bilateral trade volume rose drastically to US$8.045 billion in 2000, with an increase of 52.4% over that of 1999, with China's exports of US$2.565 billion, and imports of US$5.48 billion. In April 2000, China and Malaysia signed bilateral agreements regarding China's accession to WTO.

Economic cooperation has been developing soundly with the mutual investment between China and Malaysia constantly increasing. By September 2000, Malaysia had 1,900 investment projects in China with a contract value of US$4.837 billion and actual input of US$2.11 billion. China's actual investments in Malaysia reached US$33.370 million. By the end of 1999, Chinese companies had contracted 89 projects in Malaysia, with a combined contract value of US$67.804 million US dollars and a turnover of US$33.369 million.

In 2001, China's main export to Malaysia in value was Machinery and Electrical Appliances, Base Metal & metal article, vegetables, textile and apparel. The same year Chinese main imports from Malaysia were: Machinery and Electrical Appliances, Chemicals, Plastics, Fats and Oils, Wood and wood articles. Malaysia and China will be directly linked by 2004 by the Singapore - Kuala Lumpur - Kunming railway being completed - so expect to see a lot of Malaysian investment activity in Yunnan Province.

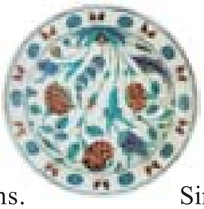
Indonesia

Due to the impact of the financial crisis in South-east Asia, the bilateral trade volume between China and Indonesia has seen a sharp dropdown since 1997. In 1999, bilateral trade saw a fight-back, with annual export and import volume of US$4.83 billion, increasing by 33%, of which, China exports accounted for US$1.78billion, imports to US$3.05 billion, respective increases of 52% and 24%.

By the end of 1999, the number of Indonesian foreign investment projects that had been approved by China reached 700, totalling investing value US$1.501 billion with actual investment US$688 million. In 1999, Indonesian investment to China showed an increase. Newly approved Indonesian investment projects to China reaches 54, increasing by 26 points compared to the previous year; with contractual foreign investment value of US$ 96.20 million with actual investment of US$129.17 million.

Indonesia's main exports to China include mineral products, pulp and paper, wood and wood articles, textile and apparel, chemical, machinery and electrical appliances. China's main export to Indonesia includes mineral products, chemicals, textile and apparel, machinery and electrical appliances.

Saudi Arabia



The bilateral trade volume has grown fast since the establishment of dip-lomatic relations.

The trade volume between the two coun-tries increased from US$290 million in 1990 to US$3.098 billion in 2000, of which China exported US$1.145 billion and imported US$1.953 billion. China main exports to Saudi Arabia are textiles, clothing, light industry pro-ducts, and foods such as grain and edible oils. Its imports from Saudi Arabia include crude oil, chemical fertilizer, and petrol-chemical raw materials. 2000 saw a drastic increase of imports of Saudi Arabian crude oil by China.

The China Council for the Promotion of International Trade has held six Chinese export commodities fairs in Saudi Arabia since 1989. In Feb.1996, the first meeting of the Sino-Saudi Joint Committee on Economic, Trade and Technologic Cooperation was held in Beijing. In November 1999, the second such meeting was held in Riad. The trade office of the Saudi Embassy in China was established in August 2001.

Iran

China and Iran started trade relations in 1950. The trade volume in 1998 was US$1.215 billion, among which there were US$657 million of exports to Iran and US$558 million of imports to China. In 1999, the two-way trade volume was US$1.348 billion, including US$663 million of exports to Iran and US$685 million of imports to China. The major products that China exports to Iran are mechanical and electrical equipments and products of chemical industry. China's main imports from Iran are crude oil. Other imported goods are chrome ore, raw cotton, polyvinyl chloride, synthetic rubber, raisin and pistachio, etc. By the end of July 1999, the volume of bilateral trade is $635 million, among which there are $352 million of exports to Iran and $283 million of imports to China.

Since 1982, Sino-Iranian cooperation on economy and technology has continued to develop. In April 1985, the two countries set up the Joint Committee on Cooperation of Economy, Trade, Science and Technology. The main projects are subways in Teheran, multi-functional vessels, the building of oil tankers, cement plants, thermal power electrical machinery units in Arak, hydroelectric generation equipment, and so on.

Since the two nations established foreign relationship in August 1971, trade relation has been further developed. Trade payment between the two nations was changed to cash payment. The trade volume rocketed to US$314 million, of which China exports accounted for US$261 million, and imports at US$53.21 million. In 1999, bilateral exportation and importation added up to US$1.347 billion, of which China exports account for US$660 million, imports to US$685 million, increasing by 10.9%, 0.9% and 22.6% respectively, compared to the year before.

In 1970s and 1980s, China mainly imported crude oil from Iran. In the recent years, China's exportation to Iran includes machinery facility, light industry, hardware and miming products, chemical industry, textile, apparatus, industrial and agricultural tool, food and oil. Machinery and electric product has become the top commodity exporting to Iran. Crude oil is on the top of China's importation list from Iran, accounting for 74 per cent of China's total importation volume from the country.

United Arab Emirates

In November 1985, China and the United Arab Emirates established a Joint Committee of Economic, Trade and Technical

Cooperation. China mainly exports to the United Arab Emirates textile products, clothes, light industrial products, products made of the five metals (gold, silver, copper, iron and tin), handicraft articles and machinery, etc. China mainly imports from the United Arab Emirates aluminum ingot, chemical fertilizer, petroleum and polythene, etc.

In recent years, the labor service co-operation between the two countries has developed from labor contract towards a trend of project subcontracting and general contracting. The fields of cooperation include construction, factories, and shops, medical care centers and sailors. According to the statistics of the Customs Bureau, the total volume of bilateral trade between China and the United Arab Emirates in 2000 was US$2.495 billion, with US$2.079 billion being China's export and US$416 million being China's imports.

The agreements signed by the two sides include: Agreement on Economic, Trade and Technical Co-operation (1985), Agreement on Protection of Investment, and, Agreement on Avoidance of Double Taxation (1993).

Halal Foods

One big area of interest is the supply to China's Muslim population of Halal products. China's official Islamic organization is the China Islam Association, who have branches in every province. (In Beijing, contact: 010 6353 0693). The government management is the State Ethnic Affairs Commission of PRC (SEAC, www.seac.gov.cn).

With the Islam Association's help, SEAC is the official Halal certification body. SEAC branches in every city can provide the license and certificate for manufacturing, distributing and selling Islamic food and other products such as medical equipment. For food imported to China from another Islamic country, the official certificate provided by original country will be needed to obtain China's certificate.

For Chinese Halal exporting to other Islamic country, the official certificate will be provided by the China Islam Association, as China is not a Islamic country, the government agency doesn't have the right to issuance. Obtaining the certificate is not complicated and require the following criteria:

1) For distributors & retailers, at least 25% employees must be Muslims, for manufacturers, at least 10%.
2) At least one Muslim is the management person. For private businesses, the owner must be Muslim. The purchasing staff, warehouse manager, and technical staff must be Muslim.
3) Must follow the canon when butchering.
4) If the retailer also sells non-Islamic food, they must keep the distance between them (e.g. for shopping center). The warehouse and measuring equipment must be seperated from non-Islamic ones.

So, there're many Islamic restaurants here serving Halal food. However, in practice, many local Muslim's do not trust Chinese Halal certification outside of their own local area. Most Muslims select retailers and restaurants by word of mouth rather than by certification as the official certificate is not strict enough. So opportunities exist for exports to China for this market.

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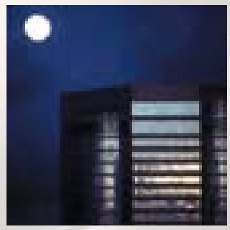

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