

China Tax Weekly Update

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Reference: Guo Fa Ming Dian [2016] No. 1, Guo Fa [2016] No. 26, Cai Shui [2016] No. 25 / 43 / 46 / 47 and SAT Announcement [2016] No. 25 / 26
 Issuance date: 23 March to 30 April 2016
 Effective date: 1 May 2016

Relevant industries: All (especially for industries of construction, real estate, financial and lifestyle services)

Relevant companies: All (especially for enterprises engaged in construction, real estate, finance and lifestyle services)

Relevant taxes: VAT, Deed Tax, Real Estate Tax, Land Appreciation Tax and IIT

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced
- Effective tax burden reduced

You may click the circular titles to access full content of the circulars.

More implementation rules on VAT reform released by the State Council, MOF and SAT

In order to help better implement the new VAT reform rules *Measures for Implementation of the Pilot Program of VAT Reform* (*Cai Shui [2016] No. 36, "Circular 36"*), the State Council, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) issued more implementation rules recently. The relevant VAT policies as well as the collection and administration issues have been further clarified.

□ [*State Council issues notice to set out the requirements for the VAT reform \(Guo Fa Ming Dian \[2016\] No. 1, "Circular 1"\)*](#)

- On April 30 2016, the State Council issued Circular 1 to set out the following requirements for the VAT reform:
 - ❖ Governments at all levels are not allowed to make retrospective tax clearance and/or over-collect taxes for their short-term and local interests
 - ❖ Enterprises are not allowed to force up the prices in the name of VAT reform
 - ❖ Ensure the transitional scheme for the division of central and local revenue from VAT is carried out smoothly after the VAT reform
 - ❖ Local government authorities are not allowed to restrict enterprises to carry out cross-regional operations, manipulate the distribution of recorded value added of enterprises across the regions and contend for tax resources through improper means

□ [*State Council issues the transitional scheme for division of central and local revenue on VAT after the VAT reform \(Guo Fa \[2016\] No. 26\)*](#)

- A transitional scheme for the division of VAT revenue between central and local levels of government, following on from the VAT reform effective from 1 May 2016, was issued on 30 April 2016. The transitional scheme will take effect from 1 May and the transitional period is tentatively set as 2-3 years. The key content of the scheme as follows:

- ❖ The base amount turned over to the central government by the local governments and the base amount returned to the local governments by the central governments are calculated based on the amount in 2014
- ❖ VAT paid by all enterprises in all industries falls within the sharing scope of central and local governments
- ❖ Central government is entitled to get 50% of VAT collected, while the local governments will get the other 50%, with the division of the local portion of VAT subdivided between local governments on the basis of where the VAT is paid (The original split ratio of VAT is 75% to 25%, i.e., central government is entitled to 75% of VAT collected, while the local government will get the other 25%. Considering the proportion of service industries, which were originally eligible for business tax, for central and western provinces is not high, the temporary grant of such a large proportion of VAT to local governments shall be able to increase the financial revenue of those underdeveloped provinces. This should help to support the local debt pay-down of those provinces.)

□ [MOF and SAT clarify issues regarding the collection and administration of Cultural Business Development Levy \(CBDL\) under VAT reform \(Cai Shui \[2016\] No. 25, "Circular 25"\)](#)

- Circular 25 clarifies the specific policies as well as the collection and administration issues for CBDL under the VAT reform. This includes taxpayer determination, tax calculation formula, occurrence time of payment obligation, place of payment, payment deadline, collection authority, exemptions, etc.
- All advertising media outlets and outdoor advertising operators that provide advertising services in China shall pay CBDL in accordance with the provisions of Circular 25. Where overseas advertising media outlets and outdoor advertising operators provide advertising services in China without setting up business establishments in China, the recipient of the advertising services shall serve as the withholding agent. (CBDL is not a newly introduced levy but now Circular 25 clarifies certain issues for this levy after the VAT reform is implemented.)
- CBDL to be paid is calculated based on the amount of sales derived from provision of advertising services, multiplied by the 3% CBDL rate. The amount of sales subject to CBDL is the difference between (i) the total tax-inclusive consideration and surcharges derived from provision of advertising services minus (ii) advertising release fees (tax inclusive) paid to another advertising company or advertising publisher
- The withholding agent shall calculate the withholding amount of CBDL based on the formula: Withholding amount of CBDL = Advertising services fees (tax inclusive) paid x CBDL rate

□ [MOF and SAT clarify taxation basis for Deed Tax \(DT\), Real Estate Tax \(RET\), Land Appreciation Tax \(LAT\) and Individual Income Tax \(IIT\) under the VAT reform \(Cai Shui \[2016\] No. 43, "Circular 43"\)](#)

- Circular 43 clarifies whether VAT is included in the tax base for calculation of DT, RET, LAT and IIT. Pursuant to Circular 43, VAT is not included in the following taxable value or taxable income:
 - Trading price for calculation of DT
 - Rental income for calculation of RET
 - Income obtained by the LAT taxpayer from the transfer of real estate
 - Taxable income for IIT purposes, derived by an individual from transfer or lease of a house
 - Taxable value or taxable income deemed by the tax authorities for calculation of the aforesaid taxes

□ [MOF and SAT clarify certain issues for financial services under the VAT Reform \(Cai Shui \[2016\] No. 46\)](#)

- Interest incomes between financial institutions which are exempt from VAT include interest income derived from the reverse repurchase financial products in pledge-style carried out by financial institutions and policy-based financial bonds held by financial institutions
- Other annuity insurance products are included in life insurance and health insurance products with a term longer than 1 year which are qualified for VAT exemption
- The 3% simplified VAT method may be applied by certain financial institutions financing agricultural activity. Financial services income derived by rural cooperative banks and rural commercial banks (at county level and below) may qualify. Furthermore, financial institutions which provide agriculture-related financial services as well as the interest income derived from the agriculture-related loans provided by certain branches at county level of Agricultural Bank of China, may qualify

□ [MOF and SAT further clarify policies for labor dispatch services and toll fees deduction under the VAT reform \(Cai Shui \[2016\] No.47, "Circular 47"\)](#)

- Where general VAT taxpayers provide labor dispatch services, the VAT can be calculated in either of the following two ways under the selection of the taxpayers:
 - Total service fees and surcharges shall be regarded as a sales amount for VAT purposes and be subject to VAT based on the general calculation method
 - The difference between total services fees and surcharges obtained minus the salaries, benefits, social securities and housing funds paid for the employees dispatched on behalf of employing units, can be subject to the 5% simplified VAT method
- Where general VAT taxpayers pay toll fees for roads, bridges and brakes from 1 May to 31 July 2016, they may calculate the creditable input VAT based on the charge amounts indicated on the invoices and by using the relevant formula

- Circular 47 also clarifies the policy implementation for other issues such as
 - HR outsourcing
 - operating leases for land
 - financial leasing contracts on immovable properties signed by general VAT taxpayers before 30 April 2016
 - financial leasing services on immovable properties provided by general VAT taxpayers before 30 April 2016

[SAT announcement on data interface standard for the tax control invoicing software of VAT invoices \(SAT Announcement \[2016\] No. 25, "Announcement 25"\)](#)

- Measures have been taken to facilitate the implementation of the VAT reforms and support the use of VAT invoices issued based on tax classification & coding for commodities and services. In this regard the SAT released the new data interface standard for the tax control invoicing software of VAT invoices. Taxpayers may download and install the up-to-date software and the data interface standard from the relevant [website](#) of the SAT

[SAT announcement on certain collection and administration issues for the VAT reform \(SAT Announcement \[2016\] No. 26, "Announcement 26"\)](#)

- Where general VAT taxpayers in the food industry purchase agriculture products from an agriculture producer, they may calculate the creditable input VAT based on the agriculture products' purchase invoices
- Where an individual transfers the residential property and signed the contract before 30 April 2016, VAT instead of business tax shall be paid if the property right alteration is made after 1 May 2016

In addition, on 27 April 2016, the Beijing State Tax Bureau (BSTB) issued three announcements to clarify VAT filing issues on cross-district provision of immovable properties leasing services and construction services by taxpayers:

[BSTB clarifies VAT filing issues for cross-district operating lease of immovable properties \(BSTB Announcement \[2016\] No. 7\)](#)

- Beijing taxpayers (other than individuals) who provide cross-district operating lease services of immovable properties within Beijing shall make VAT payment to the state tax bureau in charge where the taxpayer is located. They do not need to prepay VAT to the state tax bureau in charge where the leasing services of immovable properties take place

[BSTB clarifies VAT filing issues on cross-district provision of construction services by taxpayers \(BSTB Announcement \[2016\] No. 8\)](#)

- Beijing taxpayers (other than individuals) who provide cross-district construction services within Beijing shall prepay VAT to the state tax bureau in charge where the construction services take place. Formal declaration and payment of VAT shall be made to the state tax bureau in charge where the taxpayer is located

[BSTB clarifies the issues for VAT prepaid by taxpayers who are located outside of Beijing and provide construction services in Beijing \(BSTB Announcement \[2016\] No. 9\)](#)

- VAT prepaid by the taxpayers who are located outside of Beijing (other than individuals) for construction services rendered in Beijing, shall be made to the Xicheng Branch of BSTB

As mentioned in KPMG [China Tax Weekly Update \(Issue 12, April 2016\)](#), Shanghai tax bureau and Beijing tax bureau have separately released detailed interpretations of the newly-issued VAT rules. This includes tax guidance on VAT reform for key industries such as lifestyle services, real estate, construction and financial services. Recently, Shandong provincial state tax bureau released [Policy Guidance on the VAT Reform](#), Hubei provincial state tax bureau released [Approach for Implementation of the VAT Reform \(Part I\)](#) and Shenzhen state tax bureau released [Tax Guidance on the VAT Reform \(Part I\)](#) on their own official websites to further clarify certain implementation issues that are generally concerned by taxpayers.

* On the occurrence of Circular 36 announcement, KPMG immediately issued a series of China Tax Alerts to provide an overview of the high level policies and general impacts across all industries. Focusing on construction, real estate, finance and lifestyle services, at the same time, we also issued specific alerts for each of the three major industries affected by these changes. You may click the following links to read:

- [China Tax Alert: China's new VAT rates & rules – high level policies and general impacts across all industries \(Issue 9, March 2016\)](#)
- [China Tax Alert: China's new VAT rates & rules – Financial Services impacts \(Issue 10, March 2016\)](#)
- [China Tax Alert: China's new VAT rates & rules – Lifestyle Services impacts \(Issue 11, March 2016\)](#)
- [China Tax Alert: China's new VAT rates & rules - Real Estate & Construction industry impacts \(Issue 12, March 2016\)](#)

Reference: SAT
Announcement [2016] No. 24
Issuance date: 16 April 2016
Effective date: 1 June 2016

Relevant industries: All
Relevant companies: All
Relevant taxes: All

Potential impacts on businesses:

- Risks of being challenged due to non-compliance issues increased

You may click [here](#) to access full content of the circular.

SAT revises rules on public disclosure of tax fraud cases

On 4 July 2014, the SAT released *Trial Measures for the Public Disclosure of Significant Tax Fraud Cases* ("the Measures"), which took effective from 1 October 2014. These measures aim to 'name and shame' fraudulent tax behavior. On 16 April 2016, SAT issued another announcement, SAT Announcement [2016] No. 24, to revise the contents of the Measures. The revised Measures introduces revisions to the announcing principles, case standards, announcement contents, announcing methods, remedial measures, information keeping and penalty measures, etc. for significant tax fraud cases. The revised Measures will take effective from 1 June 2016.

Common criteria for disclosure of tax fraud cases will be applied nationwide under separate circulars issued by the SAT, the provincial tax authorities and the municipal tax authorities:

- I. Any taxpayer who fails to pay or underpays the amount of taxes payable by an amount in excess of 1 million yuan will have their details disclosed. Disclosure will be made if the underpayment accounts for more than 10% of the taxpayers' tax payable amount of all tax types of the year during any year. This targets underpayment achieved by means of:
 - forging, altering, concealing or destroying without authorization account books or vouchers for the accounts
 - overstating expenses, or omitting or understating incomes in account books
 - refusing to file his tax returns after the tax authorities have notified him to do so or filing false tax returns
- II. Any taxpayer who does not pay the taxes due and adopts the means of transferring or concealing his property, which hinders the tax authorities from collecting the amount of taxes in arrears with the amount involved reaches or exceeds 1 million yuan
- III. Whoever, by filing false export declaration or by any other deceptive means, obtains from the State a tax refund for exports
- IV. Whoever refuses to pay taxes by means of violence or threat
- V. Whoever falsely makes out VAT special invoices or any other invoices to defraud a tax refund for exports or to offset tax money
- VI. Whoever falsely issues more than 100 general invoices or the amount of the invoices exceed 0.4 million yuan
- VII. Whoever unauthorized print, counterfeit and alter the invoices, illegal manufacture the special anti-fake invoice products and counterfeit invoice printing seals
- VIII. If the violation circumstances are serious, causing significant social impact although the above criterion are not met

The revised Measures also grant remedial measures through which the taxpayer can avoid public disclosure of his case. Following two remedial measures apply to above (I) and (II) circumstances:

- If the taxpayer has settled the tax payable, overdue surcharge and penalty before disclosure, then the tax authority will only record the information of the case in the case disclosure information system, but not publicise it to the public
- If the taxpayer settles the tax payable, overdue surcharge and penalty after disclosure, then the tax authority will remove the case from the bulletin board and notify the information to other authorities that take part in the joint punishment

Reference: Order [2016] No. 34 by NDRC and other 4 authorities

Issuance date: 26 February 2016

Effective date: 1 April 2016

Relevant industries: All

Relevant companies: All

Relevant taxes: Import

Customs Duty / Import VAT /

Import Consumption Tax

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced
- Risks of being challenged due to non-compliance issues increased

You may click [here](#) to access full content of the circular.

New Administrative Measures for Accreditation of State-level Corporate Technology Centres

On 26 February 2016, the National Development and Reform Commission (NDRC), Ministry of Science and Technology, MOF, GAC and SAT jointly issued Order [2016] No. 34, revising the *Implementation of the Measures for the Management of State-Accredited Enterprise Technology Centres* (Order [2007] No. 53) and formulating new *Administrative Measures for Accreditation of State-level Corporate Technology Centres* ("the Measures"). The new Measures clarify certain issues of state-level corporate technology centres such as accreditation, operation evaluation, policies of encouragement and supervision measures. The new Measures took effective from 1 April 2016.

- The competent department of a local government shall, in conjunction with the administrative department at the same level, recommend qualified corporate technology centres to the NDRC
- The accredited corporate technology centres can enjoy the following policies:
 - State-level corporate technology centres and their branches are entitled to applicable tax incentives for the importation of products for the purpose of scientific and technological development. According to *Interim Provisions Concerning the Exemption of Import Duties from the Articles Used for the Development of Science and Technology* (MOF, GAC, SAT Order [2011] No. 63), import customs duties, import VAT and consumption taxes may be exempted. This is for imports prior to 31 December 2015*. Where the state-level corporate technology centres import the articles within reasonable quantities for the development of science and technology, which can not be made in China or whose performances can not meet the demand, then the import taxes may be waived

* It shall be noted that the MOF, GAC and SAT have not issued new extended policy up to now, thus we suggest enterprises pay close attention to the formulated progress of the new policy.

- Upon confirmation by the customs, a state-level corporate technology centre may place its duty-free imported supplies for scientific and technological development in a cross-district non-independent corporate branch for use
- The NDRC shall provide support to the state-level corporate technology centres by taking into account the innovation capability development of corporate technology centres, high-tech industrialization and the strategic development of new industries
- The State supports state-level corporate technology centres to undertake the research and development tasks under science and technology plans funded with central budgets (special projects, funds, etc.)

Reference: Guo Ban Fa [2016] No. 24

Issuance date: 21 April 2016

Effective date: N/A

Relevant industries: All

Relevant companies: All

Relevant taxes: N/A

Potential impacts on businesses:

- Operational costs reduced

You may click [here](#) to access full content of the circular.

State Council pushes forward "Internet + Circulation" initiatives

On 21 April 2016, the General Office of the State Council issued Guo Ban Fa [2016] No. 24 ("Circular 24"), setting out 12 detailed opinions to facilitate the "Internet + Circulation" initiatives. The 12 detailed opinions include accelerating the transformation and upgrade of circulation, pushing forward the innovative development of circulation, stepping up the development of the smart circulation infrastructure and etc. Circular 24 also clarified the work allocation for implementation of each opinion. The relevant work which shall require the participation of the SAT is:

- Carry out the declaration and recognition work of the "Internet + Circulation" enterprises for high and new technology enterprises (HNTEs) in accordance with the revised *Administrative Measures for Recognition of HNTEs* (participated by MOST, MOF, SAT and local governments at different levels)



For any enquiries, please send to our public mailbox: taxenquiry@kpmg.com or contact our partners/directors in each China/HK offices.

Khoonming Ho Head of Tax, KPMG China Tel. +86 (10) 8508 7082 khoonming.ho@kpmg.com	Northern China David Ling Head of Tax, Northern Region Tel. +86 (10) 8508 7083 david.ling@kpmg.com	Michael Wong Tel. +86 (10) 8508 7085 michael.wong@kpmg.com	Henry Ngai Tel. +86 (21) 2212 3411 henry.ngai@kpmg.com	Joe Fu Tel. +86 (755) 2547 1138 joe.fu@kpmg.com	Barbara Forrest Tel. +852 2978 8941 barbara.forrest@kpmg.com
Beijing/Shenyang David Ling Tel. +86 (10) 8508 7083 david.ling@kpmg.com	Andy Chen Tel. +86 (10) 8508 7025 andy.m.chen@kpmg.com	Jessica Xie Tel. +86 (10) 8508 7540 jessica.xie@kpmg.com	Irene Yan Tel. +86 (10) 8508 7508 irene.yan@kpmg.com	Ruqiang Pan Tel. +86 (21) 2212 3118 ruqiang.pan@kpmg.com	Ricky Gu Tel. +86 (20) 3813 8620 ricky.gu@kpmg.com
Tianjin Eric Zhou Tel. +86 (10) 8508 7610 ec.zhou@kpmg.com	Yali Chen Tel. +86 (10) 8508 7571 yali.chen@kpmg.com	Jessie Zhang Tel. +86 (10) 8508 7625 jessie.j.zhang@kpmg.com	Amy Rao Tel. +86 (21) 2212 3208 amy.rao@kpmg.com	Fiona He Tel. +86 (20) 3813 8623 fiona.he@kpmg.com	Stanley Ho Tel. +852 2826 7296 stanley.ho@kpmg.com
Qingdao Vincent Pang Tel. +86 (532) 8907 1728 vincent.pang@kpmg.com	Milano Fang Tel. +86 (532) 8907 1724 milano.fang@kpmg.com	Sheila Zhang Tel. +86 (10) 8508 7507 sheila.zhang@kpmg.com	Wayne Tan Tel. +86 (28) 8673 3915 wayne.tan@kpmg.com	Ryan Huang Tel. +86 (20) 3813 8621 ryan.huang@kpmg.com	Charles Kinsley Tel. +852 2826 8070 charles.kinsley@kpmg.com
Shanghai/Nanjing Lewis Lu Tel. +86 (21) 2212 3421 lewis.lu@kpmg.com	Tony Feng Tel. +86 (10) 8508 7531 tony.feng@kpmg.com	Tiansheng Zhang Tel. +86 (10) 8508 7526 tiansheng.zhang@kpmg.com	Rachel Tao Tel. +86 (21) 2212 3473 rachel.tao@kpmg.com	Cloris Li Tel. +86 (20) 3813 8829 cloris.li@kpmg.com	John Kondos Tel. +852 2685 7457 john.kondos@kpmg.com
Chengdu Anthony Chau Tel. +86 (28) 8673 3916 anthony.chau@kpmg.com	John Gu Tel. +86 (10) 8508 7095 john.gu@kpmg.com	Tracy Zhang Tel. +86 (10) 8508 7509 tracy.h.zhang@kpmg.com	Janet Wang Tel. +86 (21) 2212 3302 janet.z.wang@kpmg.com	Jean Li Tel. +86 (755) 2547 1128 jean.j.li@kpmg.com	Kate Lai Tel. +852 2978 8942 kate.lai@kpmg.com
Hangzhou John Wang Tel. +86 (571) 2803 8088 john.wang@kpmg.com	Helen Han Tel. +86 (10) 8508 7627 h.han@kpmg.com	Naoko Hirasawa Tel. +86 (10) 8508 7054 naoko.hirasawa@kpmg.com	Central China Lewis Lu Head of Tax, Eastern & Western Region Tel. +86 (21) 2212 3421 lewis.lu@kpmg.com	John Wang Tel. +86 (21) 2212 3438 john.wang@kpmg.com	Kelly Liao Tel. +86 (20) 3813 8668 kelly.liao@kpmg.com
Guangzhou Lilly Li Tel. +86 (20) 3813 8999 lilly.li@kpmg.com	Josephine Jiang Tel. +86 (10) 8508 7511 josephine.jiang@kpmg.com	Henry Kim Tel. +86 (10) 8508 5000 henry.kim@kpmg.com	Anthony Chau Tel. +86 (21) 2212 3206 anthony.chau@kpmg.com	Mimi Wang Tel. +86 (21) 2212 3250 mimi.wang@kpmg.com	Grace Luo Tel. +86 (20) 3813 8609 grace.luo@kpmg.com
Fuzhou/Xiamen Maria Mei Tel. +86 (592) 2150 807 maria.mei@kpmg.com	Li Li Tel. +86 (10) 8508 7537 li.li@kpmg.com	Cheng Chi Tel. +86 (21) 2212 3433 cheng.chi@kpmg.com	Henry Wong Tel. +86 (21) 2212 3380 henry.wong@kpmg.com	Eileen Sun Tel. +86 (755) 2547 1188 eileen.gh.sun@kpmg.com	Ivor Morris Tel. +852 2847 5092 ivor.morris@kpmg.com
Shenzhen Eileen Sun Tel. +86 (755) 2547 1188 eileen.gh.sun@kpmg.com	Lisa Li Tel. +86 (10) 8508 7638 lisa.h.li@kpmg.com	Cheng Dong Tel. +86 (21) 2212 3410 cheng.dong@kpmg.com	Grace Xie Tel. +86 (21) 2212 3422 grace.xie@kpmg.com	Michelle Sun Tel. +86 (20) 3813 8615 michelle.sun@kpmg.com	Curtis Ng Tel. +852 2143 8709 curtis.ng@kpmg.com
Hong Kong Karmen Yeung Tel. +852 2143 8753 karmen.yeung@kpmg.com	Thomas Li Tel. +86 (10) 8508 7574 thomas.li@kpmg.com	Marianne Dong Tel. +86 (21) 2212 3436 marianne.dong@kpmg.com	Henry Wong Tel. +86 (21) 2212 3380 henry.wong@kpmg.com	Bin Yang Tel. +86 (20) 3813 8605 bin.yang@kpmg.com	Benjamin Pong Tel. +852 2143 8525 benjamin.pong@kpmg.com
	Simon Liu Tel. +86 (10) 8508 7565 simon.liu@kpmg.com	Alan Garcia Tel. +86 (21) 2212 3509 alan.garcia@kpmg.com	Jie Xu Tel. +86 (21) 2212 3678 jie.xu@kpmg.com	Lixin Zeng Tel. +86 (20) 3813 8812 lixin.zeng@kpmg.com	Malcolm Prebble Tel. +852 2684 7472 malcolm.j.prebble@kpmg.com
	Alan O'Connor Tel. +86 (10) 8508 7521 alan.oconnor@kpmg.com	Chris Ge Tel. +86 (21) 2212 3083 chris.ge@kpmg.com	William Zhang Tel. +86 (21) 2212 3415 william.zhang@kpmg.com	Hong Kong Ayesha M. Lau Head of Tax, Hong Kong Tel. +852 2826 7165 ayesha.lau@kpmg.com	Nicholas Rykers Tel. +852 2143 8595 nicholas.rykers@kpmg.com
	Vincent Pang Tel. +86 (10) 8508 7516 +86 (532) 8907 1728 vincent.pang@kpmg.com	Chris Ho Tel. +86 (21) 2212 3406 chris.ho@kpmg.com	Hanson Zhou Tel. +86 (21) 2212 3318 hanson.zhou@kpmg.com	Chris Abbiss Tel. +852 2826 7226 chris.abbiss@kpmg.com	David Siew Tel. +852 2143 8785 david.siew@kpmg.com
	Shirley Shen Tel. +86 (10) 8508 7586 yinghua.shen@kpmg.com	Dylan Jeng Tel. +86 (21) 2212 3080 dylan.jeng@kpmg.com	Michelle Zhou Tel. +86 (21) 2212 3458 michelle.b.zhou@kpmg.com	Darren Bowdern Tel. +852 2826 7166 darren.bowdern@kpmg.com	John Timpany Tel. +852 2143 8790 john.timpany@kpmg.com
	State Shi Tel. +86 (10) 8508 7090 state.shi@kpmg.com	Jason Jiang Tel. +86 (21) 2212 3527 jason.jt.jiang@kpmg.com	Southern China Lilly Li Head of Tax, Southern Region Tel. +86 (20) 3813 8999 lilly.li@kpmg.com	Yvette Chan Tel. +852 2847 5108 yvette.chan@kpmg.com	Wade Wagatsuma Tel. +852 2685 7806 wade.wagatsuma@kpmg.com
	Joseph Tam Tel. +86 (10) 8508 7605 laiyu.tam@kpmg.com	Flame Jin Tel. +86 (21) 2212 3420 flame.jin@kpmg.com	Penny Chen Tel. +1 (408) 367 6086 penny.chen@kpmg.com	Lu Chen Tel. +852 2143 8777 lu.l.chen@kpmg.com	Lachlan Wolfers Tel. +852 2685 7791 lachlan.wolfers@kpmg.com
		Sunny Leung Tel. +86 (21) 2212 3488 sunny.leung@kpmg.com	Michael Li Tel. +86 (21) 2212 3463 michael.y.li@kpmg.com	Rebecca Chin Tel. +852 2978 8987 rebecca.chin@kpmg.com	Christopher Xing Tel. +852 2978 8965 christopher.xing@kpmg.com
		Christopher Mak Tel. +86 (21) 2212 3409 christopher.mak@kpmg.com	Vivian Chen Tel. +86 (755) 2547 1198 vivian.w.chen@kpmg.com	Matthew Fenwick Tel. +852 2143 8761 matthew.fenwick@kpmg.com	Karmen Yeung Tel. +852 2143 8753 karmen.yeung@kpmg.com
			Sam Fan Tel. +86 (755) 2547 1071 sam.kh.fan@kpmg.com		Adam Zhong Tel. +852 2685 7559 adam.zhong@kpmg.com