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Industry Policies of the Shenzhen Special Economic Zone

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1 General Industries

A. The rate of **corporate income tax** charged on **foreign-invested enterprises** (FIEs, particularly **Wholly Foreign Owned Enterprises**) has decreased from the original 30% to the present 15%, while the local income tax levied at the rate of 3% is exempted. *(Note 1)

B. **China's tax law** provides that a **foreign-invested manufacturing enterprise** is allowed two-year's exemption of **corporate income tax** starting from its incorporation, and a tax credit valued at the half of corporate income tax in the ensuring three years. After the tax allowance polices expire, certified enterprises-for-export are allowed a reduced rate of 10% of corporate income tax provided the volume of exports accounts for **70%** or above of the current production; and advanced-technology-enterprises are allowed a three-year extension of a reduced corporate income tax rate of 10%. *(Note 1)

C. The "**land use fee**" charged on **certified enterprises-for-export** may be reduced to half; and the "land use fee" charged on **certified advanced-technology-enterprises** may be reduced to half for five years. *(Note 1)

D. The foreign-invested enterprises engaged in the service sector with an investment of over USD5 million and registered operation duration of 10 years or above, from the year generating profits onwards, may be allowed one-year exemption of **corporate income tax**, and a tax credit of half of the corporate income tax in the ensuring two years. *(Note 1)

E. **Chinese-foreign equity joint ventures** (EJVs)engaged in port and dock construction with registered operation duration of 15 years or above, from the year generating profits, may be allowed a five-year exemption of corporate income tax and a tax credit of half of the corporate income tax in the ensuring five years. *(Note 1)

2 Integrated Circuits Industry

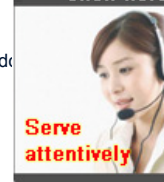
A. A **certified integrated circuits (IC) manufacturer**, from the date of its certification to the end of 2010, is subject to a 17 percent **value-added tax (VAT)** charged on IC products produced independently and sold by VAT general taxpayers and the manufacturer whose effective VAT rate exceeds 6 percent may claim a tax rebate equal to the exceeding part, once levied, once refunded. The rebate, which is exempted from corporate income tax, must be reserved for IC products' research, development and expansion purposes rather than taxable corporate revenue. *(Note 4)

B. Accelerated depreciation can be applied to the production equipment of IC manufacturers. The shortest depreciation term of the production equipment of IC manufacturers can be three years after being approved by tax authorities in case of domestically-invested enterprises, and by the State Administration of Taxation in case of joint-venture or exclusively foreign-invested enterprises. *(Note 4)

C. For the preferential tax policies applied to the IC manufacturers set up in Shenzhen, please refer to those applied to the foreign-invested enterprises engaged in construction of ports, wharves, energy and traffic projects with registered duration of 15 years or above, in other words, these enterprises, from the year generating profits, may be allowed a five-year



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exemption of corporate income tax and a tax credit of half of the corporate income tax in the ensuring five years upon enterprise application and authorization by tax authorities. *(Note 4)

D. IC manufacturers may set aside 15% of current year's net sales as R&D costs. If the R&D costs prepared are not used up in the current year, the balance may be carried over to the next year and provision should be made for the difference. If the investment of an enterprise in R&D exceeds the amount of R&D costs prepared. The amount of R&D costs less the provision may be recorded as incurred. *(Note 4)

E. Production raw materials and consumables imported by and exclusively used for IC manufacturers are exempt from tariffs and import-related VAT.

F. Integrated circuit techniques, complete set of production equipment, equipment and apparatuses specially for integrated circuit imported by IC manufacturers are exempt from tariff and import-related VAT, excluding the commodities listed in the **Catalog of Non-Tax-Free Imported Commodities for Foreign-Invested Projects** and the **Catalog of Non-Tax-Free Imported Commodities for Domestically-Invested Projects** stipulated by the State Council's Guofa [1997] No. 37 Document. *(Note 4)

G. Regarding the IC manufacturers with an investment of over RMB 8 billion or IC line width less than 0.25um, the preferential taxation policies for those foreign-invested enterprises engaged in energy and traffic prevail; the imported self-use raw materials and consumables for production shall be exempt from tariffs and import-related VAT. *(Note 4)

H. Integrated circuit techniques, complete set of production equipment, equipment and apparatuses specially for integrated circuit imported by certified IC manufacturers are exempt from tariffs and import-related VAT, excluding the commodities listed in the Catalog of Non-Tax-Free Imported Commodities for Foreign-Invested Projects and the Catalog of Non-Tax-Free Imported Commodities for Domestically-Invested Projects stipulated by the State Council's Guofa [1997] No. 37 Document. *(Note 3)

I. **Shenzhen Integrated Circuit Industrial Park** is under planning upon the first phase of construction of 3-5 square kilometers. The certified IC manufacturers located within the Industrial Park will be exempt from the assignment fee of the right to the use of land, public utilities charges, and land development charge.

J. If the senior domestic or foreign employees with professional technology and management introduced by IC manufacturers purchase residential houses in Shenzhen, the payment for the purchase may be set off against their taxable gross income and the method of refund after levy may be adopted. *(Note 4)

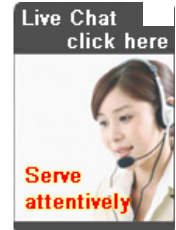
K. If the senior domestic or foreign employees with professional technology and management and their families needed by IC manufacturers settle in Shenzhen, they shall be free from the restriction of the norm of domicile of Shenzhen and exempted from city infrastructure expansion fee. *(Note 4)

L. Integrated circuit design enterprises are regarded as software enterprises, favored by the relevant taxation policies for the software enterprises. *(Note 3)

3 Software Industry

A. By 2010, a VAT general taxpayer is subject to a 17 percent value-added tax (VAT) charged on software products developed and sold by themselves and the taxpayer whose effective VAT rate exceeds three percent may claim a tax rebate equal to the exceeding part, once levied, once refunded. The rebate, which is exempted from corporate income tax, must be reserved for software products' research, development and expansion purposes rather than taxable corporate revenue. *(Note 2)

If the general taxpayers of VAT sell localized products of imported software, the sales may be favored by the once-levied-once-refunded policy according to the standards for self-developed



software products. *(Note 3)

B. **Certified new software enterprises** may enjoy 2 years of corporate income tax exemption from the profit-making year and half reduction for the next 3 years. Software enterprises included in the country's planning or key software enterprises defined by provincial and municipal governments enjoy 5 years of corporate income tax exemption and half reduction for the ensuing 5 years. For the corporate income tax paid for the third to fifth year which is levied at half reduced rate, the municipal financial authority shall provide corresponding allowance. * (Note 2)

C. The payment of salary and training expenditures of software manufacturing enterprises can be deducted from the taxable income according to the actual sum. *(Note 4)

D. If key software enterprises included in the country's planning did not enjoy tax incentives in the current year, the corporate income tax shall be levied at the deducted rate of 10%.*(Note 2)

E. The self-use equipment, technologies (including software), accessories and parts imported together with the equipment according to the contract that are imported by software enterprises are exempt from tariff and import-related VAT, and this is not applied to the commodities listed in the Catalog of Non-Tax-Free Imported Commodities for Foreign-Invested Projects and the Catalog of Non-Tax-Free Imported Commodities for Domestically-Invested Projects. *(Note 2)

F. Software enterprises are encouraged to pass international qualification certifications such as GB/T19000-ISO9000 certification or CMM certification. The Municipal Foreign Trade Development Fund supports those enterprises that have passed international qualification certification over CMM-2. *(Note 2)

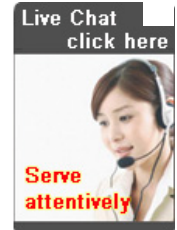
G. Shenzhen has established software enterprise hatching center. The government shall provide subsidy to new software enterprises entering the center from special fund for science and technology. *(Note 2)

H. Software system analysts and system engineers engaged in software work and software development personnel with university education or above, or college education or above and semi-senior professional titles or above or with important inventions and creations, their spouses and minor children are allowed to settle in Shenzhen (irrespective of transfer with spouse or work transport) and exempted from city infrastructure expansion fee.

I. For the software purchased by enterprises and institutions, if the purchase cost attains the standard of fixed assets or the software forms a part of intangible assets, the software can be calculated according to fixed assets or intangible assets. For domestically-invested enterprises, this shall be reported to the tax authority for approval; for the foreign-invested enterprises with a total investment of over USD\$ 30 million, this shall be reported to the State Administration of Taxation for approval; for the foreign-invested enterprises with an investment of less than USD\$ 30 million, this shall be reported to the tax authority for approval, and its depreciation or amortization duration can be shortened as short as 2 years. *(Note 3)

4 Logistics

A. For the logistic distribution centers and logistic enterprises set up in the 6 major logistic parks of Shenzhen, the price of land for their new constructions shall be charged at a preferential rate of 20%; for the projects in Sungang Logistic Park, the charge can be collected respectively at 50% of commercial and warehousing counterparts, for the projects in the other 5 logistic parks, the charge can be collected respectively at 25% and 75% of commercial and warehousing counterparts; the land price for logistic distribution projects can be paid in installment, with the maximum duration of 3 years. For the electricity used for the large-sized refrigerated warehouses and distribution centers of commercial, trade and circulation enterprises, the charge can be collected as per the standards for industrial electricity charging rate.



B. Enterprises for certified key logistic projects will enjoy preferential policies in using land and electricity, and can use "green channel" during project setup and construction with fast approval process. *(Note 15)

5 Finance

A. Financial agencies with headquarters or regional headquarters in Shenzhen can enjoy a one-time subsidy from the special-purpose fund as per the standard of 1000 Yuan per square meter for their new office buildings. *(Note 13)

B. Educational departments will give support to senior management personnel of financial agencies in terms of their children's schooling, and municipal and district educational department shall arrange for their children to study in key schools. Upon approval by relevant departments, the children of foreigners can enjoy the preference to study in Shenzhen's international schools or other schools. *(Note 13)

C. Sino-foreign joint venture or foreign banks established in **Shenzhen Economic Special Zone** with a total investment of over USD100 million and a duration of over 10 years may enjoy 1 year of corporate income tax exemption from the profit-making year and half reduction for the ensuing 2 years; their income from financial business can enjoy 5 years of business tax exemption from the opening day. *(Note 1)

6 Venture Investment

A. If venture investment agencies invest in the projects listed in the **Guide to Venture Capitals' Investment in Hi-Tech Industries**, and the total investment exceeds its registered capital or accounts for 70% of its total investment, and no less than 30% is invested in startup enterprises, then the venture investment agencies will enjoy the preferential policies for hi-tech enterprises.

The accumulated investment specified in the previous clause shall include the sum refunded and realized investment from invested enterprises within 5 years on calculation; and the investment by venture investment agencies shall be calculated according to the actual invested sum. *(Note 7)

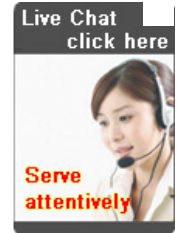
B. Venture investment agencies can draw risk compensation fund as per 5% of the yearly gross income to compensate for the investment losses of preceding years and the current year; the balance of the risk compensation fund can be carried forward to the next year, however, the total sum shall not exceed 10% of the net assets of the venture investment agencies in the year. *(Note 7)

C. If venture investment agencies invest in Shenzhen's hi-tech industries and other technological innovation industries, and the sum exceeds 70% of their investment, the agencies can enjoy the relevant preferential policies of Shenzhen upon approval by the technological authority of the Municipal Government. *(Note 9)

D. From 2000 on, the municipal finance would prepare 10 million Yuan, while the "Three funds for technologies" would prepare 20 million Yuan every year to encourage overseas students to start up their businesses in Shenzhen. First, the special-purpose fund will be used to set up and improve the **Overseas Students Venture Park** in the **Hi-Tech Industrial Park**; second, the fund will be used for preferential discount of loans for the hi-tech enterprises set up by the overseas students. *(Note 12)

E. The following encouraging policies will be employed for overseas students to undertake scientific research, investment and establishment of all kinds of industries in Shenzhen: those engaged in scientific research with research subjects certified by **the Municipal Technological Bureau** as hi-tech projects can obtain one-time scientific research startup subsidy of RMB100-150 thousand Yuan; *(Note 12)

Authorities shall actively support those overseas students engaged in go-between services



such as evaluation, consultation and advising, or third industries. Overseas students will enjoy preferential policies for their investments in domains except those forbidden by the country. * (Note 12)

In case of becoming a partner with patent or non-patent technological results, the evaluation of technological result can account for 25% of the registered capital, upon the certification by the Municipal Technological Bureau, the evaluation of hi-tech results can account for 35% of the registered capital. Other forms can be undertaken if there are additional agreements between the partners. *(Note 12)

F. Venture investments are encouraged to foster venture investment market. Overseas and domestic investors are encouraged to set up venture investment agencies in Shenzhen. If venture investment agencies invest in the projects in compliance with Shenzhen's hi-tech industry direction, the accumulated sum exceeds their registered capital or exceeds 70% of their investment, and no less than 30% is invested in startup enterprises, the agencies can enjoy the relevant preferential policies of Shenzhen. For those hi-tech projects in compliance with the government's direction, especially those incubation projects, the municipal technological development fund will adopt multiple forms to inject matching investment to the venture investment agencies. Warranty compensation fund and re-warranty system will be set up to encourage the warranty agencies set up by governmental and social capitals to give more support to the technological innovations of medium and small-sized technological enterprises. *(Note 5)

G. Expand the space of software and technology incubator through "reconstruction of workshops and replacement of industries". The Municipal Government will arrange for special-purpose funds, while district governments and relevant enterprises will contribute at a proportion of no less than 1: 2 to reconstruct the existing old workshops into software parks and technological incubators. *(Note 5)

H. Support the development of incubators. A maximum of 3 million Yuan will be subsidized to the technological enterprise incubators certified by the technological authority of the Municipal Government, so as to support the construction of public facilities of the technological enterprise incubators such as public service platform, network communications, and facilities and instruments for professional labs. The Municipal Government will invest to set up professional biological incubators. *(Note 5)

I. The Municipal Government will arrange for a proportion of the "Three funds of technology" to serve as the special-purpose fund for construction of technological enterprise incubators, and subsidize on a one-time basis those certified technological enterprise incubators. The subsidy for each technological enterprise incubator shall be 20% of its total investment, and the maximum sum shall be RMB 3 million Yuan. *(Note 11)

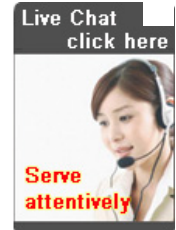
J. The certified technological enterprise incubators shall be subsidized by the municipal finance from the day being certified by referring to the supporting policies for hi-tech enterprises. *(Note 11)

K. According to the actual conditions, accelerated depreciation can be applied to the public service facilities of technological enterprise incubators upon approval by the tax authority according to related regulations, thus advancing the update and innovation of technological enterprise incubators. *(Note 11)

L. In terms personnel transfer, graduates assignment, residence registration and procedures for going abroad or to Hong Kong and Macao, the enterprises to be incubated in the technological enterprise incubators will enjoy the preferential policies for the hi-tech enterprises of Shenzhen. *(Note 11)

7 Processing with Imported Material

A. Except the commodities listed in the **Catalogue of Import Commodities for Foreign-invested Projects Not Exempted from Import Tariff**, the unpriced equipment provided by



foreign investors for processing with imported material shall be exempted from customs duty and import-related value added tax.

B. Except for the projects otherwise specified by the state, the imported materials and parts for processing with imported materials shall not be subject to quota permit management in principle.

C. The materials and parts imported by enterprises of category A for processing with imported materials shall be held by the customs in bond and not subject to bank security deposit account system. The materials and parts imported by enterprises of category B for permitted processing with imported materials shall be subject to "idling" bank security deposit account system.

D. An enterprise engaged in processing with imported materials that pay annual processing fees of over HKD 1 million may apply for direct cargo transport between Shenzhen and Hong Kong & Macao.

8 Public Utilities

The government encourages social funds and overseas capitals to construct public utilities by means of solely-funded enterprises, joint-venture enterprises, cooperation, and so on, and to undertake franchised operations of public utilities. *(Note 10)

To further support and promote enterprises to develop in Shenzhen, improve the city's investment environment, and enhance the drive for the city's economic development, we hereby work out the following measures to provide large-sized enterprises with convenient and fast services:

(1) The large-sized enterprises to enjoy the services shall comply with one of the following conditions:

Enterprises registered and operated in Shenzhen with a sales amount of over RMB3 billion yuan or export value of over USD200 million or amount of tax payment of over RMB200 million in the previous year;

World top 500 enterprises investing in Shenzhen;

China top 100 electronic and information enterprises of 2003 and Guangdong's 500 largest industrial enterprises of 2002 investing in Shenzhen;

Financial enterprises (including banking, insurance and securities) headquartered in Shenzhen;

(2) Service Items

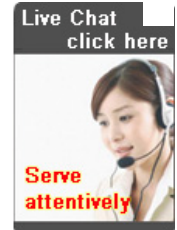
The related functional departments of the Municipal Government will set up a window to serve large-sized enterprises by providing them with services concerning business application, consultation, guidance, supervision, and complaint acceptance.



The functional departments shall appoint dedicated people to coordinate the services to be provided to large-sized enterprises.

The **Shenzhen Municipal Government** shall appoint dedicated people to coordinate the services to be provided to large-sized enterprises spanning the functional departments of the government.

For the projects to be approved by the country, the **Foreign Economic and Trade Bureau** and the **Development Planning Bureau** shall send dedicated people to the **Ministry of Commerce** and the **State Development and Reform Commission** to coordinate the enterprises to handle the related approval procedures.

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