APAC News

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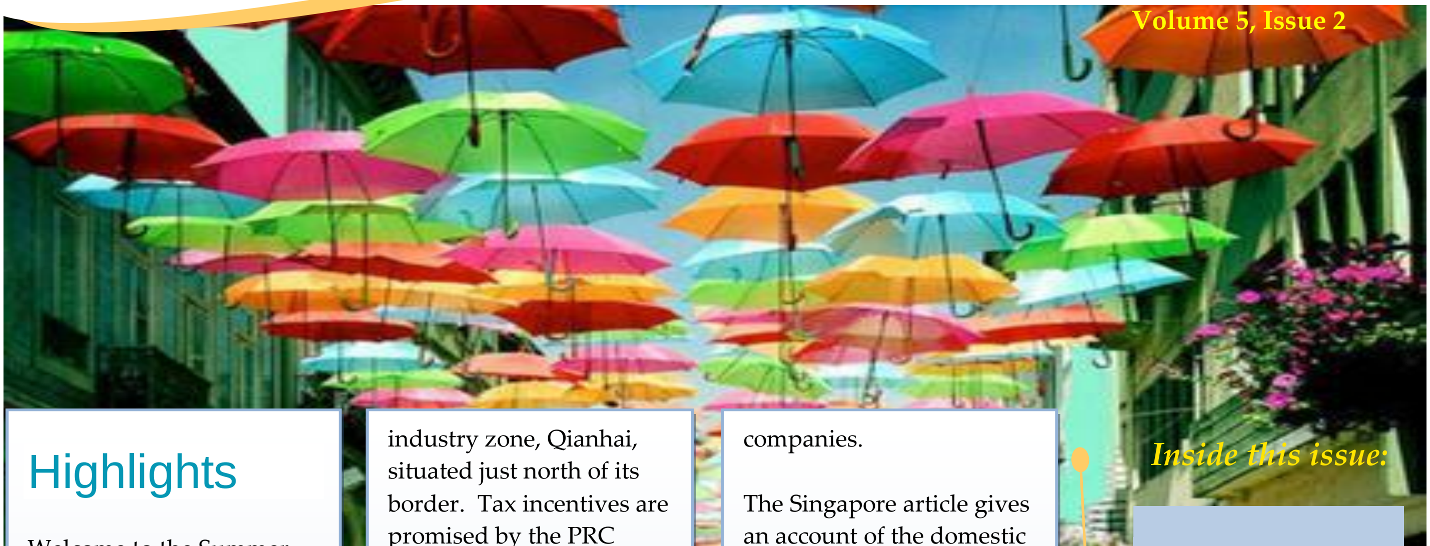

Highlights

Welcome to the Summer issue of our APAC Newsletter.

We begin with China reporting on a MOU granting US regulator access to audit documents held by Chinese CPA firms, saving US listed Chinese companies from being expelled from the US markets.

Hong Kong reports on a new modern service industry zone, Qianhai, situated just north of its border. Tax incentives are promised by the PRC government for Qianhai investments.

Indonesia has signed a cooperation agreement with IFC and formed a taskforce to develop good corporate governance.

Malaysia brings in Business Trust as a new form of investment vehicle. Please read to find out the flexibility with dividend distribution compared to conventional companies.

The Singapore article gives an account of the domestic growth that is expected to lift the country's economics in 2H 2013.

We round up this Newsletter with a report from Vietnam on tax changes.

Enjoy the sun and the summer!

Inside this issue:

News of our regional firms

News from KTC Vietnam

New Partner – Hai Quang Le – FCCA, CPA Vietnam
Hai has more than twelve (12) years of experience in accounting, audit and business advisory. He joined KTC - Ho Chi Minh Branch as Partner in June 2013 and is in charge of KTC Ho Chi Minh City Branch's corporate finance services and

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investment consulting. Before joining KTC Assurance & Business Advisors, Hai worked more than eight (8) years in audit and advisory manager with PricewaterhouseCoopers, three (3) years corporate finance manager at Mekong Securities and VPBank Securities and one year as Project Management for IFRS, Corporate Governance for VPBank. During the period working at PricewaterhouseCoopers, Hai has not only performed work at audit but also consulting for local and foreign companies in different industries, including merger & acquisition, investment in Vietnam and foreign projects. Hai is a member of the Vietnam Association of Certified Practicing Accountants (VACPA) and a fellow member of the Association of Chartered Certified Accountants (ACCA) England. He also possesses the Certification of Chief Accountant from the Ministry of Finance of Vietnam, and License of Fund Management from Vietnam State Securities Committee.

CHINA

China-U.S. Regulatory Impasse Possibly Broken

" …accept the audit only if it could review underlying documents…"

The China Securities Regulatory Commission (CSRC) announced on 24 May 2013 that CSRC and Ministry of Finance (MOF) had signed a Memorandum of Understanding (MOU) with U.S. Public Company Accounting Oversight Board (PCAOB) on enforcement cooperation. The deal will allow the PCAOB to get access to audit documents, including working papers from Chinese accounting firms. The deal applies only to the PCAOB, and the MOU sets up a number of detailed rules that regulate the PCAOB's specific investigations, including one that requires the PCAOB to describe the conduct or suspected conduct which gives rise to the request.

The MOU is a small step forwards from the last October's agreement between the PCAOB and Chinese regulators, which allows the PCAOB to observe official auditor inspections in China, and it falls short of the broad oversight the US regulator had sought. Yet it represents a "step in the right direction", as PCAOB Chairman James Doty said. Indeed, the deal can be seen as a major breakthrough in regulatory disputes over auditing and impasse the regulators of the two countries came across over the last two years. A series of accounting scandals and fraud allegations involving US-listed Chinese companies a couple of years ago led the US regulators to pay great attention to the auditors of these companies and make a lengthy effort to improve financial disclosure by these companies. One of the SEC's claims had been that it would accept the audits only if it could review underlying documents. The audit materials were then sought from related accounting firms as part of SEC investigations into potential wrongdoing by nine China-based companies whose securities are publicly traded in the U.S. . But Chinese regulators said they can't release such information because

CHINA

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Chinese law considers such information a state secret. The impasse prompted the SEC to sue the Big Four and BDO affiliates in China for allegedly violating US securities laws and prevented Chinese companies that hire any of those affiliates from completing a US IPO. The dispute has contributed to lower share prices for some Chinese companies already trading on US exchanges. More than two dozen of companies, most of which got a US listing through a so-called reverse merger, have retreated from the market in the past year and a half.

The PCAOB deal has led reviewers to believe that a similar deal will be done with the SEC, which would presumably allow the SEC to get the working papers that it sued the Big Four and BDO over. That would end those lawsuits, and the risk that the SEC would ban the auditors from auditing U.S. listed companies – which would have led to U.S. listed Chinese companies being expelled from the U.S. markets. The important event will be the annual Strategic and Economic Dialogue, scheduled to take place in Washington the week of 8 -12 July. It is expected that one of the outcomes of this dialogue will be an agreement to provide working papers to the SEC and to allow joint inspections of accounting firms by the PCAOB. Optimists believe that a deal with the PCAOB and the SEC will reopen the IPO markets in both the U.S. and China, where private enterprise is being starved of capital. Nevertheless, it does little to address the underlying accounting problems that brought this whole situation about. For the accounting firms, their nightmare may only be beginning.

".. will reopen the IPO markets in both the U.S and China…"

The Qianhai Shenzhen – Hong Kong Modern Service Industry Cooperation Zone ("Qianhai")

HONG KONG

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Background

Qianhai is a 15 square kilometer area located at the west of Shenzhen, on the east coast of the Pearl River Delta, adjacent to Hong Kong and Macau. It is located in the centre of the "one-hour living radius of Guangdong-Hong Kong-Macau".

Qianhai is positioned as an institutional innovation and development cluster zone for the modern service industries. Qianhai's port connection between Shenzhen and Hong Kong will be leveraged to create an industrial complex along the Qianhai Bay that will feature not just as central business area (development of financial services, information services, trade, accounting and other modern service industries, and attract headquarters to the area), but also bonded port area (development of modern logistics, shipping services, supply chain management services, etc)

Notice of Guohan (2012) No. 58 issued by the State Council grants pilot development policies to Qianhai more preferential than those applied to Shenzhen Special Economic Zone in the financial, legal services, human resources, education, medical and telecommunication sectors.

HONG KONG

(Continued)

"… a pilot zone for the development of innovative financial products…"

Key preferential pilot policies

Financial services	• Encourage Hong Kong-based banking institutions to grant RMB loans for enterprises and projects in Qianhai within the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"). • Facilitate cross-border RMB lending and support for enterprises and financial institutions registered in Qianhai with respect to the issuance in Hong Kong of RMB bonds designed for construction and development of Qianhai. • Promote the establishment of a sovereign wealth fund in Qianhai. • Act as an experimental zone to expand offshore RMB fund flow-back channels. • Relax the entry requirements for Hong Kong-based financial institutions to establish branches and invest in Qianhai. • Promote Qianhai to become a pilot zone for the development of innovative financial products and services, as well as the trading platforms for new and developed financial products.
Legal services	• Explore the potential for the establishment of Qianhai branches by Hong Kong arbitration institutions. • Joint operation of law firms in Mainland China and Hong Kong.
Human resources	• Allow professionals in Hong Kong to practice in Qianhai. • Allow Hong Kong accountants with Chinese Institutes of Certified Public Accountants (CICPA) qualifications to become partners of accounting firms in Qianhai • Allow Hong Kong Certified Tax Advisers to provide tax advisory services, set up CTA firms or serve as partners to CTA firms in Qianhai.

Key preferential pilot policies (Continued)

Education and medical sector	• Allow qualified Hong Kong services providers to setup wholly-owned international schools and hospitals in Qianhai
Telecommunications industry	• Promote establishment of joint ventures between Hong Kong and Macao telecommunications operators with Mainland operators in Qianhai

Tax incentives

Guohan No. 58 also points out that Qianhai will play a pilot role in exploration of tax reform in the modern service industry.

Key preferential tax incentives will include:

1. Reduced Corporate Income Tax rate of 15% for qualified companies newly incorporated in Qianhai.
   - current CIT rate is at 25%
   - qualified companies must fall within the scope of the "permitted industry catalogue and preferential catalogue for Qianhai".

2. The excess of China Individual Income Tax over the personal income tax on employment income in an individual's home jurisdiction will be subsidized for highly skilled individuals or those whose skills are in shortage in Qianhai.
   - the subsidies will be exempted from IIT

3. Exemption of Business Tax for income derived from international transportation insurance services provided to companies registered in Qianhai by insurance corporations registered in Shenzhen.

4. BT on net basis will be levied on qualified modern logistics enterprises registered in Qianhai.

5. Income derived from offshore outsourcing services by enterprises registered in Qianhai will be exempted from BT.

Observation

Qianhai, a previously unfamiliar name to most people, has in recent years appeared more frequently in the media. Many companies have been registered in Qianhai and are currently operating on a trial basis.

"...will benefit qualified investors and overseas talents..."

The policies released by the State Council demonstrate the central government's commitment to the future of Qianhai and clearly will benefit qualified investors and overseas talents, especially those from Hong Kong. However, since Qianhai is still in the start-up phase,

HONG KONG

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"…aimed at attracting new and incremental investments…"

there remain issues to be resolved:

1. The currently planned 15 square kilometers zone can only accommodate a limited number of enterprises. Infrastructure in the zone may not be completed until 2015 but interested investors should initiate discussions with the Qianhai Authority. It may be possible for a Qianhai registered enterprise to operate temporarily outside Qianhai, subject to approval.

2. Supporting regulations and implementation rules are under formulation and discussion.

3. The implementation of the preferential policies is also pending further clarifications. For instance:
   - Guohan No. 58 is silent on the validity term of the preferential policy and tax incentives;
   - How to define "highly skilled individuals";
   - How to calculate personal income tax in home jurisdiction and define the "excess", etc.

4. Whether BT will be replaced by VAT under recent VAT reform.

Lastly, it is also worth to point out that the preferential policies in Qianhai are aimed at attracting new and incremental investments to the area, rather than mere relocation of existing enterprises.

We shall keep a close watch of further development of Qianhai.

INDONESIA

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FSA and IFC Collaborate in Improving GCG Implementation in Indonesia

To improve the implementation of Good Corporate Governance (GCG) in Indonesia, in the context of achieving a sound financial system goal, in the mid-June 2013, Indonesia Financial Service Authority (FSA) Indonesia and International Financial Corporation (IFC), a member of World Bank sign a Cooperation Agreement (CA).

With support from IFC, FSA is developing Corporate Governance Road Map to identify problems and challenges of regulation in Indonesia that includes the area of shareholder rights, protection of minority shareholders, corporate board practices as well as disclosure and transparency. FSA and IFC will also finalize the Indonesia Corporate Governance Manual, an instrument developed by IFC in some other countries in the context of giving the guidance of best practices in the area of governance to practitioners, company managements, and policy makers.

INDONESIA

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Indonesia needs a sound, continuing financial system that is able to protect the interest of consumers and people. To reach the goal, FSA makes varied strategic initiatives in its attempts to improve the practice of good corporate governance (GCG) in Indonesia, for instance by organizing the Annual Report Award. Through the development of Corporate Governance Road Map and Indonesia Corporate Governance Manual that is supported by IFC, FSA affirms its commitment to support the development of company governance in Indonesia. All initiatives in the context of governance development are also intended as means for the public companies in Indonesia to prepare, welcoming the ASEAN Economic Community (AEC) 2015.

FSA considers that contribution of all corporate governance stakeholders in Indonesia is very important in achieving the goal of Road Map. Therefore, FSA forms the Corporate Governance Task Force (CGTF) that specifically plays a role to develop Corporate Governance Road Map together with IFC. This Task Force includes representatives of the following elements:

1. Regulator (Bank Indonesia, Ministry of State-Owned Enterprise (BUMN), Directorate General of Taxes, Development and Financial Supervisory Board (BPKP), Indonesian Institute of Accountants (IAI), Indonesia Stock Exchange (BEI)), and
2. Governance institute (National Committee on Governance (KNKG), Indonesian Institute for Corporate Directorship, Indonesia Institute for Corporate Governance, and Indonesian Institute for Commissioners and Directors (LKDI)).

The compilation process of Corporate Governance Road Map is expected to be completed by the Task Force in July 2013. Later, FSA together with IFC will disseminate information on Corporate Governance Road Map and Indonesia Corporate Governance Manual to private and public sectors.***

"…commitment to support the development of company governance…"

New Investment Vehicle in Malaysia – Business Trust

MALAYSIA

RUSSELL BEDFORD MALAYSIA

A Business Trust ("BT") is a new investment vehicle in Malaysia. It is a unit trust scheme established under the Capital Markets and Services (Amended) Act 2012. A BT is a hybrid structure combining the characteristics of a company and a unit trust.

The operations of a BT is conducted by a Trustee-Manager ("TM") who acts as a trustee to own and operate a business enterprise for the benefit of the unit holders. The TM must be a Malaysian registered company, whose sole business is the management and operations of the trust. A BT is suitable for businesses which are capital intensive such as infrastructure, manufacturing, healthcare and shipping.

A BT provides greater flexibility compared to an incorporated company in Malaysia when it comes to declaration of dividends. A BT can declare dividends out of operating cash flows as long as the solvency requirements are met (unlike a Malaysian incorporated company that can only declare dividends out of accounting profits).

From the tax perspective, the compliance requirement of a BT is similar to that of a company. For instance, a BT is required to file tax returns (Form C) and estimate of tax payable (CP204) annually.

"…provides greater flexibility… when it comes to declaration of dividends…"

Below are tax implications of a BT:

	Tax implications
Tax status	• BT is a taxable person.
Residence status	• Determined based on the residence status of the TM: - the TM carries on the business in Malaysia; and - the management and control of its business is exercised in Malaysia.
Tax rate	• 25%
Profit distribution	• Distribution paid are tax exempted (single tier system)
Tax losses	• BT can carry forward any unabsorbed losses to be set off against future business income. • Current year business losses can be set off against its non-business income in the year losses were incurred.
Capital allowance	• Capital allowances are available for qualifying capital expenditure incurred on plant or machinery and buildings.
Tax incentives	• At the early stage of the establishment of a BT: - Stamp duty exemption on instruments of transfer of businesses, assets or real properties acquired; and - Real property gains tax exemption on disposal of real properties or shares in a real property company to a BT. The above exemptions are applicable to a BT registered and approved by the Securities Commission between 1 January 2013 and 31 December 2017

As the Malaysian capital markets continue to mature, the introduction of a BT as a new investment vehicle is much anticipated. A BT is likely to attract interests of sponsors and promoters as it allows greater fundraising flexibility than other listing vehicles.

Update On Singapore Economy – 2013

SINGAPORE

STEVEN TAN RUSSELL BEDFORD PAC
Public Accounting Corporation

Singapore's official forecast is for growth of 1 to 3 % in 2013

The Singapore economy is expected to pick-up towards the second half of this year. GDP growth for 2013 will be supported by domestic-oriented construction and key services sectors such as finance and insurance and business services, as well as turnaround in the biomedical, marine and offshore engineering and chemicals sectors. However, downside risks remain as Singapore is a small open economy that is very much dependent on the growth of major developed economies that are still weak and showing patchy growth at best.

CPI-All Items inflation is projected at 3 - 4% for 2013

Accommodation and private road transport costs will account for more than half of CPI-All Items inflation in 2013. Excluding these two items, core inflation will be lower at around 1.5 – 2.5%.

FY 2013 Budget focus: Restructuring the economy to achieve more equitable growth

Budget 2013 builds on the restructuring efforts put in place since Budget 2010, with additional initiatives for businesses to upgrade, create better jobs, and raise wages for Singaporeans under the "Quality Growth Programme".

Curbing foreign workers, helping SMEs cope with restructuring and raising wages for Singaporeans

Foreign worker policies were tightened further via higher foreign worker levies, lower dependency ratio ceilings, and tighter eligibility requirements for S Pass, with the least productive sectors that relied most heavily on low-skilled foreign workers being hit the hardest. To ease the burden of restructuring for businesses, a three-year Transition Support Package was put in place. A key feature of this package is the Wage Credit Scheme, whereby firms are encouraged to share the benefits of productivity gains with Singaporean employees in the form of wage increases co-funded by the government. The government will co-fund 40% wage increases given in 2013 to 2015 to Singaporean employees (i.e. Singapore citizens) earning a gross monthly wage of up to and including S$4,000. Firms were also given rebates on corporate income taxes and road taxes on commercial vehicles. Productivity and Innovation Credit scheme was expanded to include more small and medium enterprises.

Reducing income inequality

In order to promote more inclusive growth, the 2013 Budget contained measures to reduce income inequality. The Workfare Income Supplement Scheme was enhanced, with wider coverage and larger payouts, to offer targeted assistance to the elderly and low-income workers. The property tax structure was also made more progressive, while a tiered Additional Registration Fee (ARF) system was put in place such that purchasers of more expensive cars pay higher rates.

"…firms are encouraged to share the benefits of productivity gains with Singaporean employees…"

SINGAPORE

(Continued)

"…Literacy Rate = 96.4"

Selected Indicators

General Indicators, 2012			
Land Area (Sq km)	715.8	Literacy Rate*	96.4
Total Population (`000)	5,312.4	Real Per Capita GDP (US$)	45,973
Labour Force (`000)	3,361.8		
Resident Labour Force Participation Rate (%)	66.6		

*Refers to resident population aged 15 years and over.

Components of Nominal GDP Sectoral	*(% of GDP), 2012*
Manufacturing	20.7
Finance & Insurance	11.9
Business Services	14.6
Construction	4.4
Transportation & Storage	7.7
Information & Communications	3.8
Wholesale & Retail Trade	17.0
Accommodation & Food Services	2.5

Major Export Destinations		Major Origins of Imports	
Total Exports (S$ Billion)	510.3	Total Imports (S$ Billion)	474.6
	(% Share), 2012		*(% Share), 2012*
Malaysia	12.3	Malaysia	10.6
Hong Kong	11.0	Hong Kong	10.3
China	10.8	China	10.2
Indonesia	10.6	Indonesia	6.7
US	5.4	US	6.7
ASEAN	31.8	ASEAN	21.0
NIEs	18.6	NIEs	14.2
EU	8.9	EU	12.5

Tax Changes

VIETNAM

Corporate Income Tax – CIT

New regulations on management, usage and depreciation of fixed assets

On 25 April 2013, the Ministry of Finance issued Circular No. 45/2013/TT-BTC, replacing Circular No. 203/2009/TT-BTC, providing guidance on the management, usage and depreciation of fixed assets. Accordingly, many previous regulations are amended and supplemented by Circular 45 with the main updates on the following issues:

- Criteria for recording fixed assets;
- Longer useful life of some assets;
- Leased land use right recorded as an intangible assets in certain case;
- Land and houses for sales by real estate enterprises; and
- Depreciation of fixed assets for Build – Operate – Transfer ("BOT") of Business Cooperation Contract ("BCC") projects.

Circular 45 takes effect from 10 June 2013 and is applied from fiscal year 2013 onwards.

CIT incentives applicable to scientific and technological enterprises

Pursuant to OL No. 1168/TCT-CS dated 10 April 2013 of the General Department of Taxation ("GDT"), an enterprise meeting all qualifications as a scientific and technological enterprise shall be entitled to a CIT rate of 10% for the period of 15 years starting from the first year of generating turnover from scientific and technological activities, exemption from CIT for a period of 4 years and 50% rate reduction (e.g. 5%) for the following 9 consecutive years from the first year of having taxable income. However, to enjoy CIT incentives, apart from qualifying as scientific and technological enterprises, the enterprises must satisfy the requirements of having an appropriate scientific and technological turnover ratio each year. Otherwise, the current standard tax rate will apply.

Tax declaration and payment on "other income" from Production-Sharing Contract ("PSC")

Pursuant to OL No. 992/TCT-DNL dated 26 March 2013 of the GDT, income from insurance compensation and port fees of contractors participating in the PSC shall be offset with the recoverable expenses of this Contract. With respect to bank interest that is treated as other income, operators of the petroleum contracts shall declare and pay taxes on such income before splitting with the Contractors unless there are other agreements in place.

Value Added Tax ("VAT")

VAT for exporting services

Pursuant to OL No. 948/TCT-CS dated 25 March 2013 of the GDT, where a company sighs a service contract with a sub-contractor of foreign enterprise in Vietnam, such service will not be treated as an export

"…scientific and technological enterprise shall be entitled to a CIT rate of 10% for 15 years…"

"…declare consolidated VAT returns at the Head Office…"

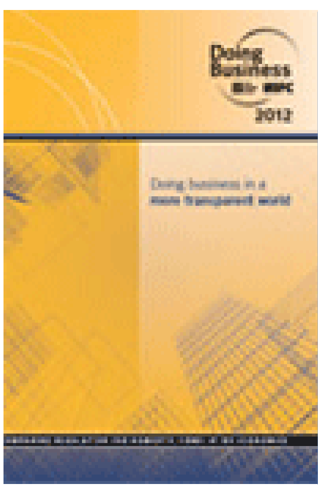
services and therefore will not be entitled to a VAT rate of 0%.

Consolidate VAT declaration

Pursuant to OL No. 968/TCT-KK dated 25 March 2013 of the GDT, in order to reduce administrative procedures, business establishments with dependent accounting units must declare consolidated VAT returns at the Head office starting with tax declaration period of April 2013. Based on the VAT declaration in the monthly allocation agreement between the head office and the dependent accounting units, the enterprises will create vouchers and pay the VAT to the respective local tax authority according to the regulations.

Foreign Contractor Tax ("FCT")

FCT applicable to on-the-spot import and export activities that occurred before 1 January 2009
Pursuant to OL No. 939/TCT-KK dated 25 March 2013 of the GDT, a foreign enterprise doing business and deriving income from business activities without having a presence in Vietnam shall be subject to FCT with respect to such income.
With regard to FCT payable by the foreign enterprise, which has not been declared or has been declared incorrectly by Vietnam party, the Vietnam party shall be permitted to make additional declarations if the tax authorities have not yet issued notice for a tax audit or inspection at the business site.



Doing Business in a More Transparent World - 2012

This is the ninth of the annual reports co-published by the World Bank and the International Finance Corporation ("IFC").

The report assesses regulations affecting domestic businesses in 183 economies and ranks the economies in 10 areas of business regulation. Singapore led on the overall ease of doing business, followed by Hong Kong, New Zealand ….. with Korea making it for the first time to the top ten. The report is available for viewing and download at:

www.doingbusiness.org/reports/global-reports/doing-business-2012

Russell Bedford member firms are proud to continue to be the regular contributors to this co-publication on fiscal related issues.

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