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Chinese Investors in Germany

Latest issues that Chinese companies operating in Germany need to know.

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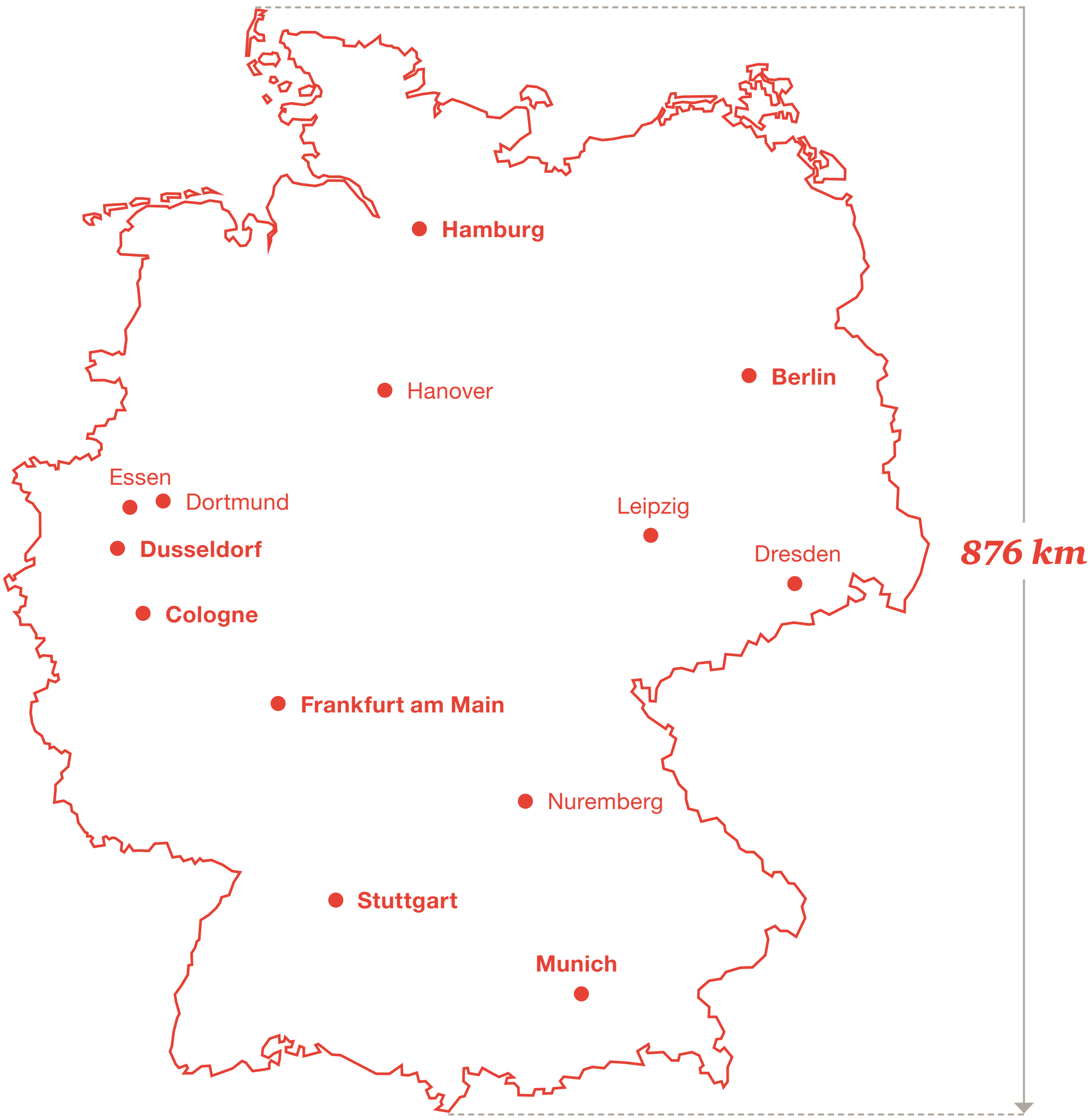
Map of Germany



Preface

Germany is a mature market with sophisticated customer demands. This requires different strategies than in the Chinese home market. In this respect M&A has often proven to be a viable market entry option for Chinese companies seeking growth and know-how in Germany.

Germany has an advanced and comprehensive legal system. The rules are detailed and complex, but do provide a reliable framework in which companies can operate and flourish. In order to effectively utilize this environment for your business success, it is crucial to have professional advisors you can trust.

In this brochure we give an insight into selected "hot topics" for Chinese investors in Germany to show some of the implications of investing in Germany to enable you to take advantage of the opportunities that arise.

If you would like more information on any of the subjects covered, or to discuss other subjects that matter to your business, please contact Jens-Peter Otto, PwC's Chinese/German Business Group Leader in Germany, or Thomas Heck, PwC's German Business Group Leader in China.

"Differences between Chinese and German legislation and commercial practice are often significant. Keeping up-to-date with what is happening is interesting, but also essential."

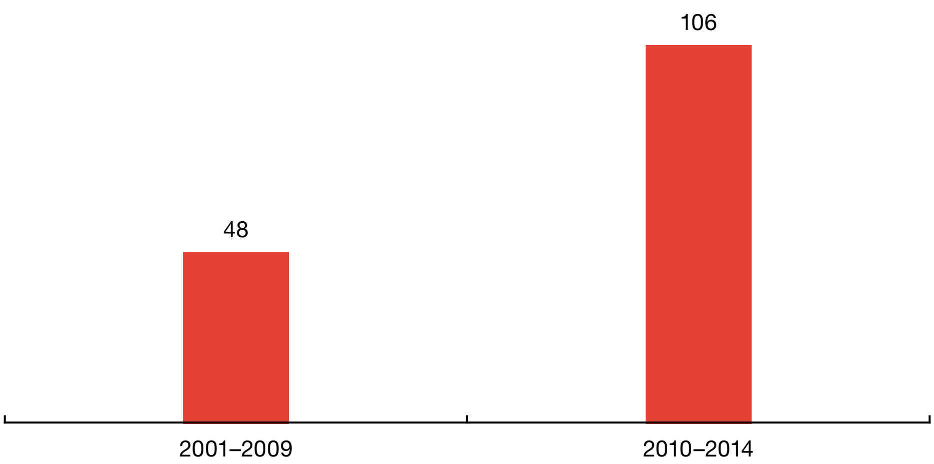
Jens-Peter Otto and Thomas Heck,
Chinese/German Business Group Leaders

Table of contents

Chinese M&A Activities in Germany

Chinese overseas investments in the EU have been steadily increasing in recent years, with Germany being one of the major destinations for merger and acquisitions (M&A). Germany's strong industrial manufacturing, computer hardware and automotive industries offer attractive investment opportunities for Chinese companies seeking growth and know-how.

Number of deals by Chinese investors in Germany



Background

The number of Chinese investments in Europe has grown by over 130% in 2014 over the past five years. Germany's share in the number of EU bound Chinese investments has also seen a rise for five consecutive years. Although Germany holds the pole position in regard to the volume of Chinese M&A transactions, the overall deal value was higher in the UK. Germany's popularity as an investment destination can be attributed in particular to its strong industrial technologies, consumer related business brands and high-tech knowledge.

China is Pushing Reform Projects

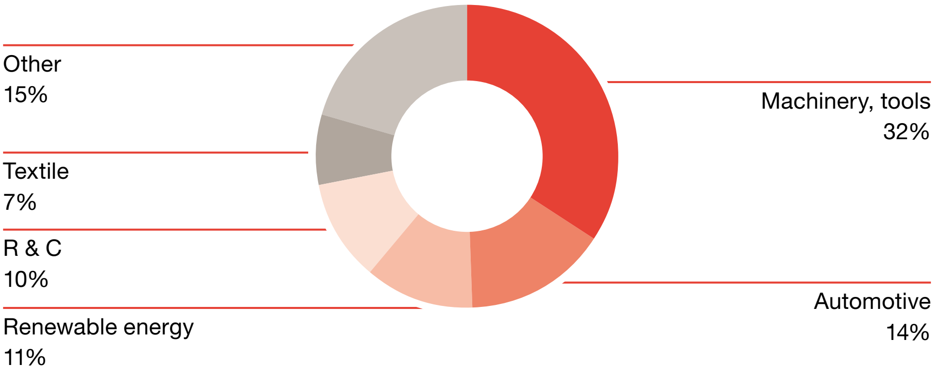
The liberalization of state-owned enterprises (SOEs) and increased accumulation of private capital is likely to further stimulate Chinese investments in Germany. China's government is going to reform its state sector by allowing partial privatization under "mixed ownership." As the SASAC (State-owned Assets Supervision and Administration Commission of the State Council) announced, the National Building Materials Group and China National Pharmaceutical Group Corporation (Sinopharm) will form the spearhead of its reform.

Other reasons for Chinese companies expanding to Germany and Europe lie in their search for new markets, increased demand of Chinese consumers for more sophisticated products, as well as rising production costs at home, which signify that Chinese firms have to improve the quality of their products and services to remain competitive.

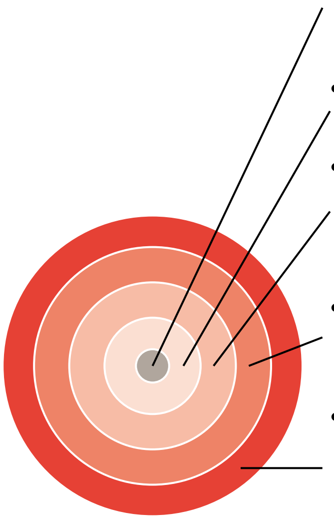
German Companies as an Attractive Investment Opportunity

While some parts of the euro zone are still struggling with effects of the euro crisis, Germany's economy recovered quickly and remains a landmark for investment opportunities. Especially its strong industrial manufacturing, chemical, renewable energy and automotive sectors, to name only a few, provide attractive opportunities for Chinese companies to acquire advanced technologies, know-how and intellectual property for optimizing their existing products. Chinese firms can also utilize German acquisitions as gateway to the European market and local management expertise on how to successfully market their products. This creates a win-win situation, as German companies gain access to financial support and Asian markets.

Industry sectors subject to takeovers

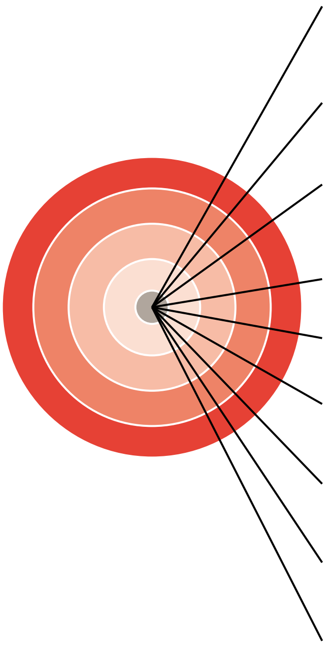


Pre deal consideration



- Challenges with identifying and selecting the right investment that meets your overall strategic and financial objectives
- Inadequate planning for completion of transaction and post-deal integration
- Political and administrative challenges with securing required foreign government approvals which can cause foreign targets to back away from offers or negotiations
- Finding and allocating the right resources from the beginning to deliver on the short term and long term goals of the investment
- Intense scrutiny from the local and international media regarding a 'Chinese takeover' which shape public opinion and significantly influence the target's willingness to continue with negotiations or consider offers

Post deal considerations



- Significant corporate culture conflicts and language issues which could impact integration of the management, labour pool, and all aspects of day-to-day operations
- Lack of clear strategy for new organisation
- Issues with quickly integrating the supply chain, manufacturing processes, and distribution networks to prevent loss of customers/sales
- Control of costs and early identification of any areas for potential cost savings
- Quality control and brand management
- Retention of executives, key management, and employees
- Standardisation and simplification of finance functions, management information systems, and operations
- Inefficient integration plan which may take too long to execute
- Need for comprehensive and complex transition service agreements

Finding the right target upfront and integrating it after the deal is closed is essential to a successful market entry.

Challenges for Chinese Companies

The main challenges for Chinese companies are finding the right target, conducting proper due diligence in order to identify pitfalls and getting to know their German counterpart during the M&A process, as well as post-merger integration to realize synergies to the fullest. Our experience shows that it is important to get things right from the beginning.

Turning Your M&A into a Success Story

Our global M&A team comprises about 1,000 professionals worldwide and is eager to assist you with all stages of the M&A process. With our expertise ranging from target searching, to due diligence, and post-merger integration, we are looking forward to help you take control in your M&A deal by identifying your value drivers and realizing synergies. Thus, we will help you turn your M&A transaction into a success story.

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Investing in the German Real Estate Market

The German real estate market has become a factor of stability for the country's economy and in recent years has experienced remarkable growth, especially in urban areas.

The German Real Estate Landscape: High Legal Certainty, Complex Tax Law

The German real estate market is geographically highly diversified. By contrast to countries like France and the UK, where most of the commercial real estate market is located in the general area of the capital, Germany offers stable real estate values throughout the country. According to 'Emerging Trends in Real Estate® Europe' – a real estate forecast published jointly by the Urban Land Institute (ULI) and PwC – Munich, Berlin and Hamburg are among the top five most attractive real estate locations in Europe. German real estate law is comprehensive and gives investors a high degree of legal certainty. Although the tax law might seem overwhelming at first sight, its framework is logical and offers opportunities for optimizing the tax structure of your investments. In order to turn your real estate investment into a success, a profound knowledge of the German legal environment and tax landscape is a prerequisite.

The Legal Framework

There are no legal restrictions on cross-border real estate investments in Germany. A passport and sufficient capital are all that is needed to purchase property. However, contrary to the expectations of some private investors, acquiring real estate does not result in a right of residence. While real estate in China remains the property of the state and can only be leased for up to 40 to 70 years, real estate in Germany can be purchased as freehold and then belongs to the buyer. The right of succession and the right of property are guaranteed by the constitution. Real estate can be sold without restriction at any time but can only be expropriated in extreme situations in the general public interest and only then against adequate compensation.

Due to its favourable risk-return profile German cities dominate the investment prospects for Europe's commercial real estate sector as investors continue to favour safe locations.

Market for office real estate

Location	Office area (in million m^2)	Top rentals (in €/m^2)	Top returns (in %)	vacancy (in %)
Munich	22.5	30.6	4.5	6.1
Berlin	18.2	22.0	5.0	7.0
Hamburg	13.1	24.0	4.7	7.4
Frankfurt am Main	11.7	35.0	5.2	13.9
Dusseldorf	7.6	26.0	5.2	11.4

Source: Colliers International, Market Report – Office Leasing & Investment Germany 2014/2015.

Tax Rates and Real Estate

Type of tax	Tax Rate	Comment
Real estate transfer tax	No common tax rate	Depending on the province between 3.5% and 6.5%
Real property tax (land tax)	No common tax rate	Real property tax usually marginal amount
Income tax/ corporation tax	No common tax rate	Corporation tax 15%, income tax between 0% and 45%
Solidarity surcharge	5.5%	Calculated based on Income and corporation tax
Business tax	No common tax rate	Between 7% and 17.5%, depending on the local authority
Dividend withholding tax	25% plus 5.5% solidarity surcharge, but reduced by double tax treaty to, typically, 5%–15%.	When corporations pay out dividends

The Tax Framework

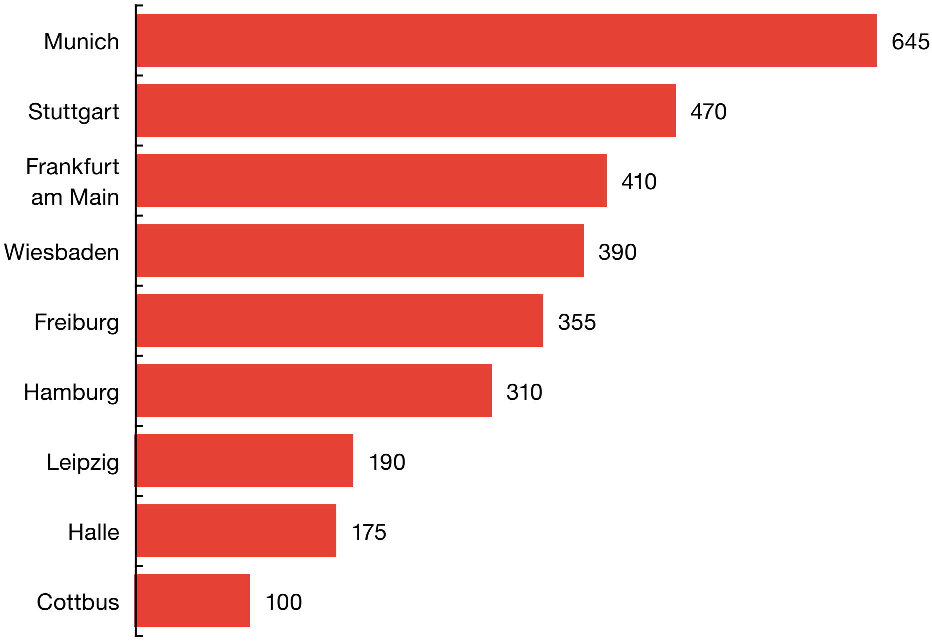
Tax related considerations should constitute an essential part of the planning of an investment concept. A lower tax burden can yield larger profits. Although the tax burden in Germany is comparatively high, it can be reduced by optimizing the investment structure. This requires profound knowledge of German tax regulations and the new double taxation treaty between China and Germany. The table below provides an overview of the most relevant types of taxes that apply to real estate investments in Germany.

Guidelines for Investing in Germany: Asset Deals vs. Share Deals

Acquiring real estate and real estate portfolios offers a wide range of opportunities, but at the same time poses potential pitfalls. Real estate transactions bear – in addition to general investment risks – certain real estate specific risk factors such as market, location, development, object and liquidation risks. Thus, it is crucial to scrutinize investment opportunities and properly assess their risks. This applies to asset deals as it does to share deals. The former is concerned with a transfer of ownership of property or real estate portfolios, whereas the latter describes purchasing shares of special purpose vehicles (SPV) with real estate property. Due to their different legal character, the two options require a different due diligence approach.

Purchase price of "one-family" houses

Price of an unoccupied, detached house in €'000 (average condition, approx. 125 m² living space, including garage and average land area)



Source: IDV, Wohn-Pressespiegel 2013/2014.

Helping Your Real Estate Investment in Germany to Succeed

Our experience shows, that larger investments are most successful when they are based on interdisciplinary evaluation and coordination. In addition to financial due diligence, certain investments further require legal and technical due diligence in order to maximize their potential. Our multinational expert team can foster your investment by providing real estate valuation and suggesting financing strategies. Moreover, we provide solutions for future-oriented real estate management and innovative transactions, offer advice on economic and technical issues for construction projects, and improving your risk management for property funds. The PwC solution is geared to your needs and based on an analysis of your specific business processes.

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The new Double Tax Treaty between China and Germany

China and Germany signed a new Double Tax Treaty (DTT) on March 28, 2014 which will replace the current DTT from 1985 and which will offer Chinese Investors in Germany new opportunities for optimizing their tax structures, simplifying administration and saving costs.

Background

President Xi Jinping and Chancellor Angela Merkel signed a new DTT in Berlin during his state visit to Germany in March 2014. The new DTT will make the existing tax regulations for potential Chinese investors in Germany more transparent and easier to compare. The DTT is applicable for Germany and Mainland China but does not include Hong Kong or Macau. Chinese companies will be able to benefit from a reduction of withholding taxes in Germany not only through cost savings, but potentially also through simplified FDI (foreign direct investment) schemes. Withholding taxes on direct profit repatriations from Germany to Mainland China are significantly lower than via holding companies in Hong Kong or any offshore jurisdiction because of the new DTT. Other relevant changes affect e.g. the taxing rights on certain capital gains and the qualification of PE (permanent establishments) in Germany. It is expected that due to the outstanding ratification process the DTT is expected to come into force earliest on January 1, 2016.

Significant Changes/Hot Topics

- Reduction of withholding taxes on dividends paid from Germany to China from 10% to 5% if the Chinese parent company holds a direct participation of at least 25% of the German subsidiary
- Reduction of withholding taxes on leasing rates paid from Germany to China from 7% to 6%
- Time threshold for a building site, construction, assembly or installation project to constitute a PE is extended from 6 to 12 months
- Determination of a service PE has become clearer and more convenient by an altered time threshold from 6 months to 183 days within any 12 month period
- Commitments that transfer pricing adjustments in one country will lead to a correlative profit adjustment in the other country.
- Stricter rules to qualify as independent agent
- Comprehensive information exchange arrangements

Chinese companies will be able to benefit from the DTT in form of a reduction of withholding taxes and through simplified FDI schemes.

Thinking Ahead

The new treaty brings a variety of new rules which might lead to attractive alternatives, especially regarding direct investments, financing and lending. However, Chinese investors can benefit from beneficial withholding tax or permanent establishment qualification schemes in Germany only upon application and when meeting all relevant preconditions. The opportunities and challenges of the new treaty and the consequences for the business activities in Germany should therefore be carefully considered, regardless whether it concerns the set-up of a new subsidiary or performing business activities as a PE in Germany, the repatriation of profits of an existing subsidiary, the transfer pricing calculation and documentation or other Germany related transactions and activities.

Will you be able to leverage on the new Chinese German DTT? The PwC tax experts can advise you on its impact on your business in Germany and China by helping you find the most efficient setup based on your business needs.

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German Employment Law

Foreign companies and investors are often puzzled by German labour law regulations. They are unaware of the vast number of individual and collective employee protection provisions and regulations, which they encounter when expanding business activities or entering the market for the first time in Germany.

Background

Entry into the German market, which in the past, was achieved by Chinese investors particularly in the mechanical automotive industries and the tool making industry, is frequently carried out by buying a factory (asset deal) or of company shares (share deal). German labour law plays a central role in these events and can be decisive for a transaction's success or failure. Successfully taking control of a company requires that the employees of the company are happy with the new owner and the new situation. After a take-over or during the restructuring period, Chinese investors often struggle with some of the special features of German employment law, some of which are outlined below.

Union Agreements

A company in Germany can be bound to a collective union agreement without being a party to the agreement itself, even if it is not a member of the employers' association. This is possible either by statement of the Ministry for Labour and Social Affairs or through the legal regulations governing certain industries which extend the fixed employment conditions of a trade union agreement to all employment relationships in that industry. Such statements or regulations exist for example in the construction and electrical industries and in wholesale and international commerce. Additionally, Germany has introduced a nationwide minimum hourly wage of €8.50, effective 2015.

Employee Representation

Employees in Germany not only have the fundamental right to elect their representatives in the workplace at any time, but also – depending on the size of the company – to elect a third or one-half of the company's supervisory board members. In Germany, a works council (of employee representatives) can be formed in a business with at least five employees, and can veto decisions on hiring, overtime, introduction of software or other topics within the firm. Special regulations apply to limited companies. Depending on the number of employees, one-third or one-half of the seats on the (non-executive) supervisory board fall to employee representatives. If there are more than 2,000 employees, employee representation includes delegates from the trade union.

Being recognised as a great workplace by employees is a pre requisite to attract and retain talents in times of demographic changes.

Labour Law in daily operations

The employer faces regular labour law issues throughout daily operations. For example, parental leave entitlements, rules governing the access to daylight at the work place, as well as entitlements to the reduction of working time or deferred compensation with regard to company pension plans are a challenge for many employers.

Obtaining Legal Advice

When investing in Germany, employers and investors should gain an overview of the individual matters of labour law. This covers the obligations of employers generally, the form and content of employment contracts and the options open to the employer on the types of employment he wishes to offer. PwC Legal is here to help.

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Public Incentive Programmes in Germany

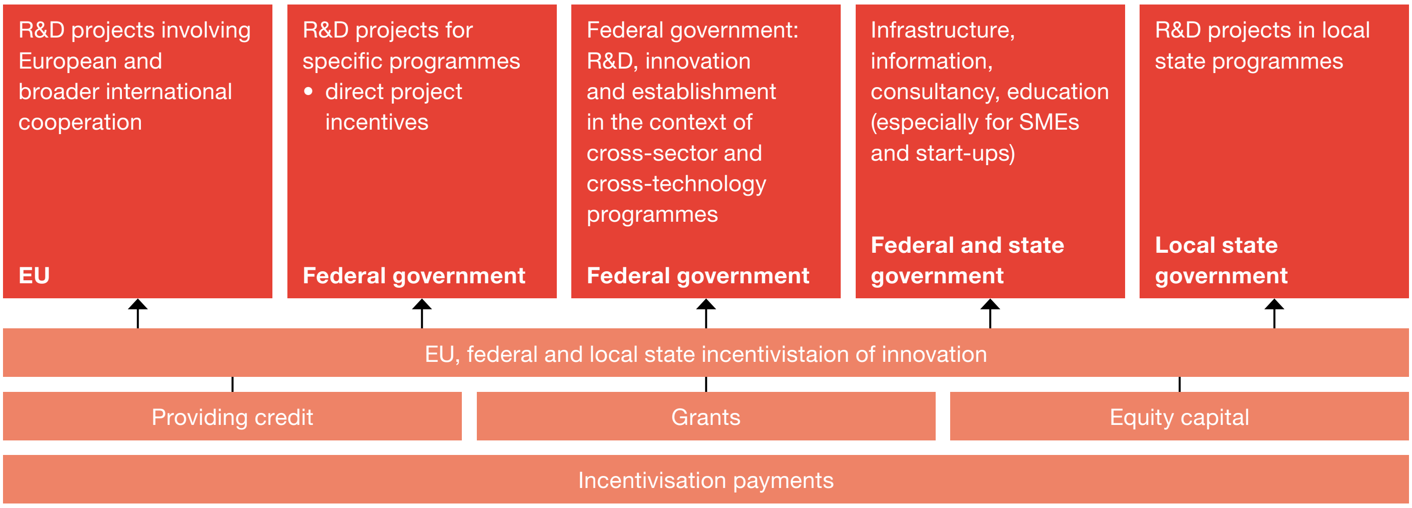
Finding finance has become tougher in recent years. Hence grants and subsidies have become an especially attractive financing component for many businesses. Companies should explore whether there are opportunities for government or local authority aid for planned projects.

Background

Alternative financing is becoming more important for businesses. This is partly due to stricter requirements on raising funds, but there are also other factors, such as the banks' tighter lending conditions, an increasingly dynamic tax legislation and new business accounting obligations. Consequently, government grants and subsidies in Germany and the EU have become an attractive alternative for companies seeking financial support.

Government funds are regularly allocated by open tender processes (according to the first come, first served principle) and in accordance with the European law on state aid. Applications must follow the formalities, whilst time limits must be adhered to and there inevitably remains some uncertainty about the outcome. Government funds are available on a very broad scale in Germany and the EU, for instance in the areas of investment projects of private businesses, infrastructure improvement, mobility, energy and sustainability, environmental protection, as well as research and development (R&D), to name only a few.

Which government grants are available in Germany and the EU



Government funds are available on a very broad scale in Germany and the EU.

Investment Projects

One example of opportunities for Chinese companies to obtain public funding is investment promotion projects. In Germany and certain parts of Europe, commercial investment projects with the purpose of establishing new production or service facilities, or of increasing the capacity of existing facilities, are eligible for public funding. This funding mainly consists of non-repayable grants.

Whether a project is eligible for funding depends on the location where the investment takes place and the nature of business established.

The funding in Germany for example can reach between 10% of the total investment sum for large enterprises and 30% for small enterprises.

R&D Projects

A second type of public incentive programme targets R&D. This is of particular interest to Chinese companies with their own R&D infrastructure in Germany or the EU. This includes facilities acquired with a business or subsidiary. Many commercial R&D projects are eligible for funding by the provincial, national and EU level. The complex structure of funding opportunities for R&D projects requires sophisticated planning and careful application. Aid is mainly given as grants, equity holdings and loans. While EU and national investment promotion programmes often target small and medium-sized entities (SME) and large firms alike, the German provinces mainly focus on SMEs.

Which projects are eligible for funding often depends on their value and their commercial status:

- Pure research (grants of up to 100%)
- Applied research (grants of up to 50%, additional funding for SMEs up to 20% and for cooperation projects up to 15%)
- Experimental development (grants of up to 25%, additional funding for SMEs up to 20% and for cooperation projects up to 15%)
- Marketing (no grants).

Grants and equity are generally only available for the first three types of project, whereas loans are often given for the latter two. Companies must apply for support before the start of their project and may not be able to start it until they have been notified of the approval – for example for projects supported by the EU. Once received, the funding can only be used for the specific project and has to be repaid if the conditions are not adhered to.

Optimizing Your Funding Opportunities

PwC supports companies when applying for project funding in Germany and the rest of Europe, with a particular focus on business ventures, public infrastructure projects, and also on innovative projects in research and development. As an independent funding advisor, PwC has access to a large domestic and international network of decision makers, such as to senior officials in ministries for the economy and the relevant granting authorities.

When analyzing and optimizing funding opportunities, PwC includes all substantive types of funding such as bonuses/allowances, secured and unsecured loans, tax relief and equity injections.

PwC assists in tailoring projects to business funding opportunities. This will increase planning stability for the management and reduce the risk of having to repay the subsidy for non-compliance with its conditions.

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Listing Your Company in Germany

Listing on the Frankfurt Stock Exchange (FSE) locates your company in one of Europe's most important financial centres. By holding your IPO at the FSE you can develop into a truly global company and bolster your equity base for long-term projects. As of 2014, 23 Chinese companies are already registered on the FSE. The market environment for a Chinese listing abroad has become rocky as scandals surfaced in recent years. However, we also see equity stories that make a lot of sense from a business perspective.

Benefits of a Listing on FSE

- Access to national and international investors
- Balanced regulation and high market credibility
- Saving time and money with a simple and cost-efficient listing process
- Competitive admission and annual listing fees (for example Prime Standard: €3,000 admission fee, €2,500 introduction fee, €10,000 annual listing fee)
- Fastest admission listing process worldwide
- Predictable time schedule for IPO
- Great attention especially for high-tech and "green" companies
- Strong peer groups and internationally established indices e.g. Cleantech, Renewable Energies, High Tech Engineering
- Approved EU prospectus counts as EU passport

Variety of Market Segments and Transparency Standards

The FSE provides companies with two market segments of different transparency standards. These segments and standards are designed to meet the different capital needs of companies and their investors from around the world. Prime Standard has the highest level of transparency in Europe and is the first choice for companies planning a major IPO. General Standard is based on minimum EU-regulation. Entry Standard offers low costs and flexible access. An inclusion in First or Second Quotation Board means even less stringent formal requirements.

Main Market Prime Standard

The Prime Standard is tailored to the needs of companies seeking to attract global investors and to enhance substantial future growth at comparably low cost of capital.

Key Factors for a Successful IPO

The main tasks to bring a company into shape for going public are as follows:

- Preparation of a well-constructed, attractive equity story, supporting the central statements by reliable data and information
- Establishing high quality corporate governance standards underpinned by robust management information and management reporting systems
- Composition of the historical financial track record, if necessary conversion to IFRS
- Assessment of the existing capital, organizational and tax structure
- Implementation of legally compliant processes, to be able to fulfill ongoing reporting requirements and to establish an efficient capital market communication process
- Management and employee incentive arrangements

Overview of Admission Requirements for Prime Standard

Prospectus	Required
Issuer	Must have existed for at least 3 years. However, not mandatorily in its current legal setup. Therefore, it is possible to set up a holding company as a listing vehicle.
Accounting standards	EU-issuers: IFRS Non EU issuers: IFRS or standards equivalent
Reporting history	3 years Exemptions possible (e.g. SPACs)
Minimum issuing volume	10,000 shares
Minimum market capitalization	€1.25 million
Initial free float	Minimum of 25% Exemptions possible
Free transferability of securities	Required
Applicant	Issuer together with a bank or a financial services institution. Either the issuer or the bank/financial services institution must be admitted to participate in stock exchange trading on a German securities exchange (minimum equity capital of €730,000).

IPO Readiness Helps You to a Successful Listing

Our experts in China and Germany can advise you across all critical stages of your IPO. We help to identify key issues and gaps, develop a road map that suits your company, and execute the plan in order to maximize the value of your IPO. In the pre-listing stage we assess your IPO-readiness and advise you on necessary improvements. In the post-listing stage we audit your financial statements and get you ready for audits of the German Financial Reporting Enforcement Panel (DPR). Additionally, we help you to prepare a "fact book" with all significant financial and tax information for the prospectus as well as the corresponding documentation for the auditors, and provide the financial due diligence required by issuing banks for most capital market transactions.

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Reporting and Compliance Requirements for Chinese Companies

Typically, a change in ownership brings about new requirements to a company's internal reporting. When Chinese investors purchase German targets, potential complexities might arise from special local reporting requirements, such as Jiuqi and China SOX. These reporting requirements often apply to all subsidiaries – in China and abroad. We will outline the potential pitfalls and strategies to circumvent them below.

Jiuqi

Usually, German subsidiaries of Chinese state owned enterprises (SOEs) are included in the reporting to Chinese State-owned Assets Supervision and Administration Commission of the State Council (SASAC) – also known as "Jiuqi" (久其), which includes financial as well as non-financial aspects. Often, the periodical reporting comprises more than 300 worksheets. The German management and the internal processes have to be prepared for these requirements in order to meet the deadlines, as well as quantity and quality standards set by SASAC. Furthermore, some Chinese companies expect the reporting to be in Mandarin.

Enterprise Internal Control

The "Basic Standard for Enterprise Internal Control," also known as "China SOX" was introduced with a three-year schedule starting 2012. The objective is to ensuring companies give full and proper attention to strengthening their internal control system, before the Basic Standard becomes mandatory for all listed companies. The goal of this guideline is to improve the corporate risk management and the quality of financial reporting systems. These regulations also provide excellent opportunities to make significant improvements in the financial reporting and internal control systems of German subsidiaries.

Testing Your Readiness for Chinese Compliance and Reporting Standards

Based on our experience from advising companies in preparation of compliance with the provisions of the US- and the Japanese Internal Control Standards, we anticipate that companies will encounter a number of challenges in their readiness efforts. Some of the challenges and our recommended approach for management to consider as part of their readiness efforts include:

1. Without adequate involvement from the leadership, there is a high risk of internal control efforts being aimed solely at meeting compliance requirements, with little or no benefit to the business. Worse, it may create additional costs, such as the need to document the 'evidence' of control execution, but these would be purely for leaving an 'audit trail', focusing on form rather than the substance of internal controls.
2. Emphasis on training and knowledge. The terms 'internal control' and for that matter 'enterprise risk management' are still relatively new to Chinese companies, and only those companies that are listed overseas have been exposed to these concepts to any great extent. Training and knowledge accumulation is therefore critical for companies to truly understand the meaning of these terms, and to be familiar with the underlying thinking.

These regulations also provide excellent opportunities to make significant improvements in the financial reporting and internal control systems of German subsidiaries.

3. Adopt a phased approach. With the complex and diverse group structure often seen among Chinese companies, coupled with the lack of experience, a phased approach (i.e., assess, implement and embed), is essential to ensure a smooth implementation and maintain the correct focus of internal control projects.
4. Build upon the current control infrastructure. It is important for companies to recognize that maintaining effective internal control is a continuous process, and the starting point must be the current control or management framework of the company. It's also important that the processes and controls account for local regulations and operating conditions (e.g. tax).
5. Strengthen 'soft' control components: One of the areas often misunderstood is the concept of 'soft' control components such as corporate culture and ethics. These components take time to embed into a company, and cannot be implemented in a day.
6. Leverage on internal control. The Basic Standard and related regulations require a company to undertake an annual assessment of the effectiveness of an internal control framework (ICFR). It does not make sense for this annual assessment to be undertaken literally as a 'once-a-year' exercise for two reasons. Organizing a major annual exercise may be very costly and disruptive to business operations, but more importantly, formally assessing control effectiveness once a year could encourage a 'form over substance' approach to internal control. The need for a strong and risk-based internal audit function therefore becomes another key success factor to the successful implementation of internal control.

Our Services

Our Risk Assurance Services are experts in assessing and improving internal control systems. Our German and Chinese experts can assist your company with interpreting Mandarin reporting forms, deciding which information is necessary and how to design processes to retrieve it. Moreover we can advise you on which processes and IT applications should be enhanced in your German operation and implemented in order to guarantee a smooth exchange of relevant information, as well as on which quality controls are expedient.

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Frankfurt RMB Clearing Centre

The Chinese central bank People's Bank of China (PBoC) and the German Bundesbank declared that Frankfurt will become the first Renminbi (RMB) clearing centre within the euro zone. The creation of a Chinese currency hub in Europe removes trade obstacles and facilitate Renminbi transactions.

Background

Until the internationalization of the Chinese currency started in 2009, the RMB was only used within the borders of China. Since then, it has seen an enormous upswing in its usage and now (since 2014) ranks among the world's ten most widely used currencies. Due to its geographic proximity and cultural similarity, Hong Kong became the mainland's first off-shore centre for the RMB and has seen significant trading volumes since then. For example, German companies issued corporate "Dim Sum" bonds in Hong Kong. In addition to the central government's "on-shore" experiments with the newly created free trade zone in Shanghai, the establishment of Frankfurt as first RMB hub within the euro zone is another step towards internationalizing China's currency.

Significant Changes

Invoicing commercial transactions with Chinese trade partners or subsidiaries in Renminbi offers significant advantages. Risks emanating from the fluctuation of intermediary currencies, such as the USD, can be avoided and payment transactions become more efficient by reducing complexity as well as reducing time, hedging and transaction costs.

The chinese Renminbi clearing centre enables Chinese companies to hedge Renminbi currency risks directly with Euro, establish a group-wide central treasury system, and engage in cash pooling on a global scale. Moreover, access to the capital markets is becoming easier following the relaxation of restrictions on overseas RMB loans and the adjustments to the cross boarder settlement system to allow banks to directly process payments.

Trading in RMB can reduce risks and costs for companies.

The increased Renminbi liquidity will increase the availability of Chinese currency derivatives and improve the cost structure of such transactions. It will also be possible to use the Chinese currency in other areas, such as letters of credit and in the context of supply-chain-management. An improvement of supply chain-management can be achieved through cross border lending, which enables companies to match their surplus in China with their RMB requirements offshore (e.g. paying suppliers in their own currency avoiding intermediary currencies).

Main Challenges

The main challenge for companies will be to figure out how they can most effectively utilize these new opportunities. Firms which neglect this development might in the long run fall behind their global competitors. Advising the “RMB-Initiative Group,” PwC’s Corporate Treasury Solutions holds unique expertise in this field and will be involved in shaping its future development. As a competent partner in issues regarding Renminbi and Renminbi clearing, we can assist you in preparing your treasury management for the new challenges ahead.

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Visa and Immigration Regulations – Germany

During the past few years German immigration law has changed significantly. The government now takes the approach of seeking the immigration of highly qualified people. In order to enter Germany and to perform any business activities, Chinese nationals need an entry visa. Chinese investors, however, often perceive the visa application process as overly complicated and sometimes have difficulties in obtaining one at all. Recently, a Chinese company in Europe had their premises searched due to allegations of visa infringements.

Short Term Business Trips

A business visa allows a business visitor to stay for a maximum of 90 days within a 180 calendar day period in Germany. However, the main restriction on a business visitor is the limited scope of activities that he can perform during a business trip. This might include attending trade fairs and visiting customers to market products and negotiate contracts. Additionally, executives could conduct management meetings, etc. German immigration law does not contain a clear definition of permitted activities during business trips. Thus, it is often difficult to decide whether an activity can be carried out on a business trip or not. The duration of stay in Germany is not decisive; the nature of the activity is the deciding factor and determines the correct visa category. It is recommended discussing the intended activities with the responsible immigration authority in Germany well before the business trip starts, as or the individual may need a work and residence permit in Germany.

Long Term Transfers

German immigration regulations provide for several types of work and residence permits. The main work and residence permit categories are the following:

It is recommended discussing the intended activities with the responsible immigration authority in Germany well before the business trip starts, as or the individual may need a work and residence permit in Germany.

International Staff Exchange

Employees of a foreign group of companies can be assigned to Germany with an international staff exchange permit if the same number of German employees of the affiliated company is assigned to other countries. A work permit on the basis of international staff exchange is limited to a maximum of three years.

Blue Card EU

A Blue Card EU can be granted to employees with an academic background having a local German employment contract and earning a minimum gross salary of currently €47,600 (January 2015). A lower minimum gross salary is sufficient for certain professions with a special demand for experts such as IT specialists, engineers and scientists. As of 2014, the lower threshold is €37,128.

Executives and Managers

Whether an employee is an executive or holds a managerial position under German law has to be examined carefully in each individual case. Evidence of such a position can be given by a detailed job description to prove that the employee belongs to a company's higher management level as seen in German labour law, or to prove that the person is of high importance for the company's development. Moreover, proof can be given for executives with registered rights to represent the company ('Prokura') with an extract from trade register.

Company Specialist
A company specialist is an employee with extensive specialist knowledge and skills related to the company's business or products that is significant for the services, research, processing or management of the entity in Germany. Whether or not an employee is a company specialist under German law has to be examined carefully in each individual case.

Investors
There is a special rule for investors or other individuals doing business on the German market. Investors have to regularly submit a business plan. Particularly in the case of self-employed persons, the immigration authority checks whether the intended activity is important for and has positive effects on local economic development, and is otherwise in the public interest. The immigration authority sometimes also asks the local chamber of commerce or other institutes for their opinion. The procedure is decided on a case-by-case basis and is subject to the scrutiny of the chamber of commerce and the responsible authorities.

Process Overview/Work Permit

Irrespective of the exact regulation for the work permit, the following process generally has to be completed by the individual to legally work and reside in Germany:

Step 1 – Visa Application
An individual has to apply for his visa at the German embassy or consulate in the country where he currently resides. The visa process usually takes 6 to 12 weeks. The German embassy can in certain cases decide visa applications on its own, although in most cases it will forward the application to the local employment office (labour exchange) at the intended place of employment in Germany and ask for their authorization before handing out the visa.

Step 2 – Work Authorization
In general, the entry visa can only be issued once the German authorities have given their approval for the individual to take up employment in Germany. To speed up the process, the application for the work permit can be submitted before the visa application.

Depending on the type of work authorization (see above), the employment office may perform a labour market screening by checking the minimum wage requirement and other labour law issues.

Step 3 – Town Hall Registration
One week after entering Germany, the foreign employee has to register his address at the responsible town hall.

Step 4 – Residence Permit Application
After registration, the employee has to visit the immigration authority and apply for and pick up the final work and residence permit.

How We Can Help

PwC's immigration specialists are able to support individuals throughout the process and can sometimes expedite the approvals because of our close collaboration with the local authorities at every stage. PwC will follow and monitor each step of the immigration process and can clarify challenges and issues in advance.

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Understanding German Culture and Regulations

The greatest obstacles to successful cooperation of Chinese and German business partners can often be found in intercultural factors. This section highlights some of the most frequent cultural issues and ways to mitigate them.

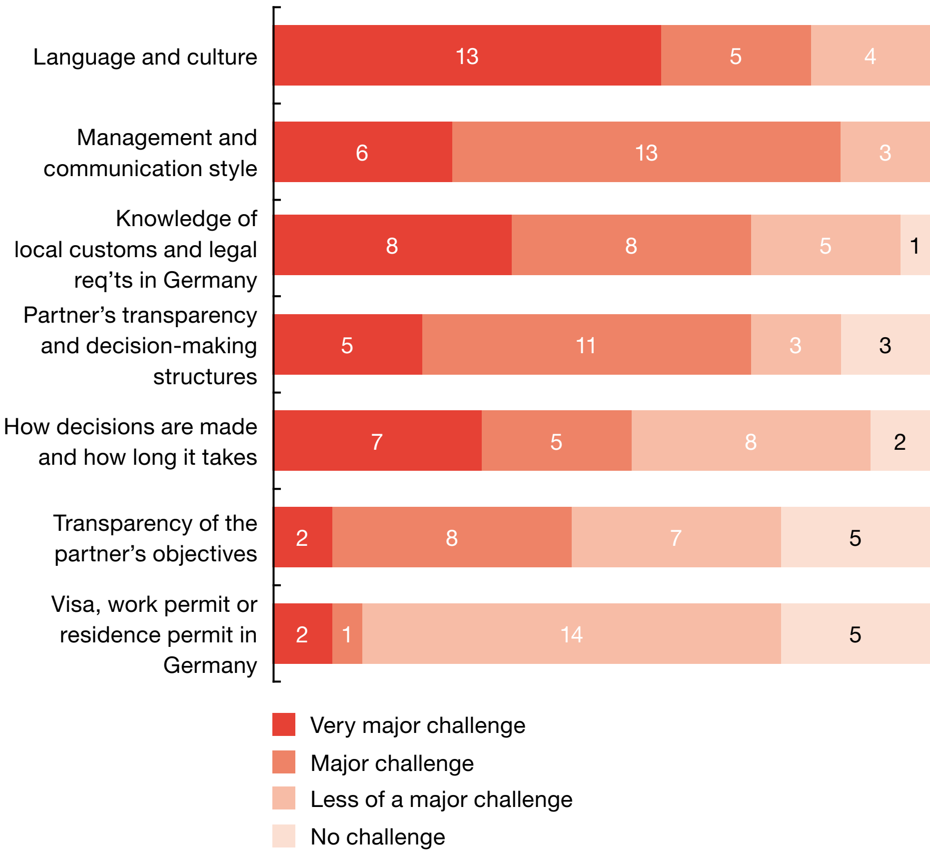
Background

PwC Germany conducted a survey on the experiences of German companies with Chinese investors. Based on interviews with 22 participants – of which 16 were in senior management positions – we identified several obstacles and challenges encountered by Chinese and German employees. In addition to language barriers, the different socio-cultural horizons and experiences of socialization were often a significant impediment to smooth and effective cooperation. The following is a selection of the most prominent findings intended to help your company circumvent the obstacles or mitigate their consequences.

Language Issues

According to the results of our survey, many Sino-German business ventures suffer from a lack of language skills. Not many German employees are able to speak Chinese on a business level, and vice versa. Using English as a common base can be challenging for both sides. Therefore, it is advisable to offer language training for employees of both nationalities. A common strategy is to hire both managers with good English language skills and a high degree of intercultural sensitivity, or Chinese employees with extensive cultural experience from having lived and worked or studied in Germany for several years. These employees can then act as mediators between the Chinese and German sides in order to create mutual understanding.

Challenges of cooperation as cited by respondents



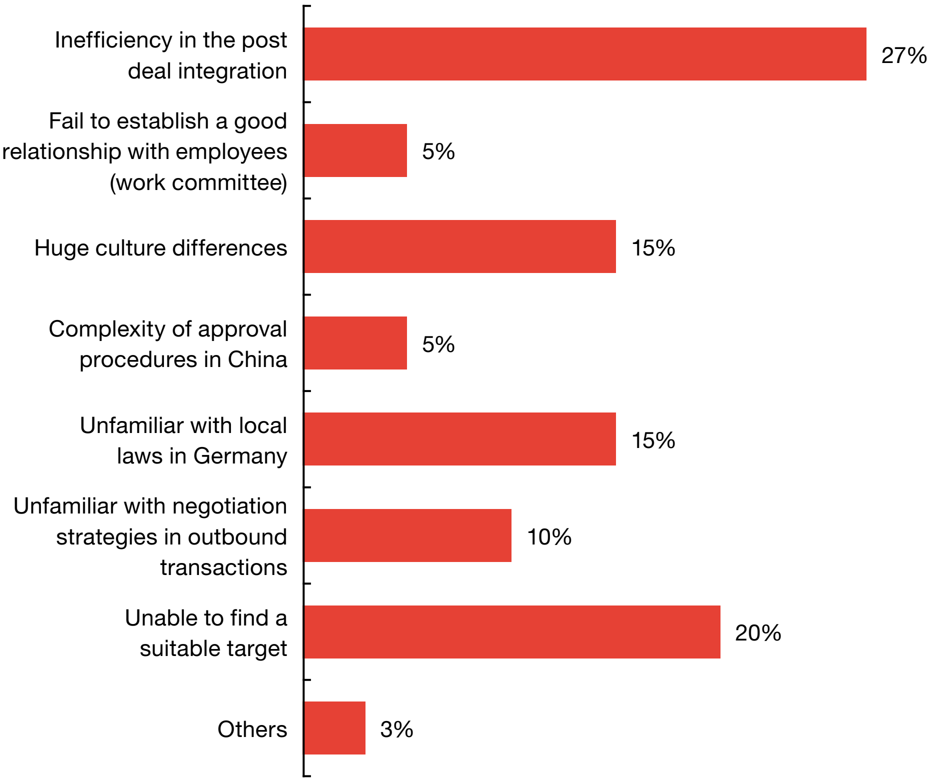
(Perceived) Lack of Planning and Transparency

Many managers from a German background complain about a perceived lack of planning and transparency on the Chinese side. Chinese investors should deepen their understanding of the cultural needs of their German employees and sensitize both parties to each other's cultural preferences.

From their low conflict culture, Germans favour a direct communication style with a steady flow of information. Chinese managers on the other hand, expect large parts of the information to be understood from the context of the conversation. These cultural differences often lead to a perceived disenfranchisement of the German employees, who then become demotivated. Chinese investors on the other hand can see an overly direct communication style as rude and disrespectful.

Another frequent source of friction between the Chinese management and the German workforce lies in their conception of time and their resulting work styles. Germans tend to have a monochromic perception of time, and therefore like to approach their tasks in a sequential manner, doing one thing after another. In contrast to this, Chinese people tend to have a polychrome perception of time, meaning that they prefer to tackle several tasks at once. When these work styles encounter each other, the German side perceives the Chinese side as being disorganized, whereas the Chinese side thinks the German employees are being inflexible and prefer tasks over relationships.

What are your main concerns about investing in Germany?



Chinese investors should deepen their understanding of the cultural needs of their German employees and sensitize both parties to each other's cultural preferences.

Compliance and Bureaucracy in Germany

Our research showed that Chinese companies often perceive the bureaucracy in Germany as overly complex and slow. For instance, the application process for a temporary residence permit can take up to five months. It is not always possible to obtain work permits for Chinese nationals acting as translators or interpreters.

Many Chinese investors find it difficult to appreciate the full implications of the German legal and regulatory background. Especially the regulations and constraints in the areas of labour and environmental law, as well as other, routine compliance requirements commonplace in Germany, leave many Chinese investors feeling bewildered. Chinese investors must avoid breeching compliance standards, which might arise from a different cultural understanding of employee and business partner relationship management.

It comes as little surprise then that post-deal integration was named as by far the most difficult challenge in a different PwC survey among Chinese managers. 72% of the interviewees are planning to rely on external professional advisors to overcome these obstacles in the future.

How We Can Help

Our Chinese-German Business Group provides you with network of PwC experts across all lines of service. It comprises more than 40 Chinese nationals and many Germans with secondment experience in China, who are eager to contribute their intercultural experiences to the success of your firm.

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Presentation Chinese/German Business Group

We provide comprehensive support to optimize cross-border business and to structure activities in the partner country efficiently and effectively.

Our services

The Chinese/German Business Group specializes in the challenges faced by companies with business ties involving Germany and China. Apart from our traditional Assurance, Tax & Legal and Advisory services portfolio, we offer cross-border advice and assistance on a variety of business issues, including goods and services transactions, holding and financing structures, initiation of business activities, and optimization of the existing organisation. Our experts can also support you in establishing a business or subsidiary, or in acquiring or selling a company in either country.

Our main service areas are:

- Assurance (e.g. year-end audits, system and process audits, international financial reporting)
- Tax (tax planning, ongoing tax advice)
- Compliance services
- Strategy, organization, processes and system optimization/implementation
- Transactions (e.g. Mergers and Acquisitions, Due Diligence)
- Legal advice (e.g. company law, energy law)
- Reorganization, restructuring and forensic services (fraud)
- Finance and investment (e.g. investment incentives, financial advice)

About us

Our clients face diverse challenges, strive to put new ideas into practice and seek expert advice. They turn to us for comprehensive support and practical solutions that deliver maximum value. Whether for a global player, a family business or a public institution, we deploy all our resources: experience, industry knowledge, high standards of quality, commitment to innovation and our international network in157 countries. Building a trusting and cooperative relationship with our clients is particularly important to us – the better we know and understand our clients' needs, the more effectively we can support them.

PwC Germany has over 9,400 dedicated people at 29 locations. With a turnover of €1.5 billion it is the leading auditing and consulting firm in Germany. PwC China, Hong Kong, Macau, Taiwan and Singapore work together on a collaborative basis, subject to applicable local laws. Combined the territories have a dedicated staff of over 17,000 people in 26 offices. PwC is the leading auditing and consulting firm in these territories, too.

The Chinese/German Business Group team consists of German and Chinese advisors from all areas of our service portfolio. Their close collaboration translates into direct benefits for our clients. With experts in both countries, who not only possess a deep cultural understanding of the other, but are also fluent in Chinese and German, enables us to tailor our services to your precise business needs.

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