

**Provisions of the State Council Concerning the Encouragement of
Investment in Developing Hainan Island**

(Promulgated on May 4, 1988)

Article 1 These Provisions are formulated with

wharves, airports, highways, railways, power stations, coal mines and water conservancy projects etc., and those involved in agricultural development, with a period of operation of 15 years or longer, shall enjoy a five-year income tax exemption beginning from the first profit-making year, and shall be granted a 50 percent reduction in income tax from the sixth to the tenth year;

(2) those engaged in industrial, communications and transportation and other productive enterprises with a period of operation of 10 years or longer, shall enjoy a two-year income tax exemption starting from the first profit-making year and shall then be granted a tax reduction by one half from the third to the fifth year; those acknowledged by the People's Government of Hainan Province as technologically advanced shall further enjoy a tax reduction by one half from the sixth to the eighth year;

(3) after the expiration of the stipulated period for the reduction of or exemption from enterprise income tax according to the State, enterprises engaged in industry, agriculture, and other productive businesses, shall have their enterprise income tax reduced to 10 percent in the year when the value of their export products amounts to 70 percent or more of their output value of that year;

(4) those involved in service trades, with a total investment of or over US\$ 5 million or RMB 20 million yuan and a period of operation of 10 years or longer, shall be exempt from enterprise income tax in the first profit-making year and enjoy a 50 percent reduction in income tax in the next two years.

Reduction of or exemption from local income tax for enterprises within Hainan Island shall be determined by the People's Government of Hainan Province.

Article 13 For investors from outside China who have no offices on Hainan Island, a 10 percent income tax shall be levied on their dividends, interest, rents, franchise royalties and other income derived from the island except those exempt from income tax according to law. The People's Government of Hainan Province shall decide who are to enjoy income tax reduction or exemption.

Article 14 Enterprises with foreign investment and enterprises with 25 percent of their shares held by foreign businessmen shall enjoy the right to conduct import and export operations, and other enterprises may enjoy the same right, if so approved by the People's Government of Hainan Province - i.e. to import the goods necessary for the production and operations of their enterprises, and export their own products.

Article 15 Customs duty, product tax and value-added tax shall be exempted on the machinery and equipment, raw materials and parts, means of transport and other materials and items as well as office equipment that the enterprises within Hainan Island need to import for their own production and operations.

Customs duty, product tax or value-added tax shall be reduced by one half on the

goods imported for sale on the market in Hainan by enterprises on the island.

Article 16 The State encourages enterprises on Hainan Island to export their manufactured products. Products manufactured by enterprises to be exported shall be exempt from export duties, and product tax or value-added tax already collected thereon shall be reimbursed, except for crude and refined oil, as well as a few other products specifically designated by the State.

Article 17 The products manufactured by enterprises on Hainan Island and marketed in Hainan are exempt from product tax or value-added tax, whereas mineral oil, tobacco, liquor and a few other products specially designated by the People's Government of Hainan Province are subject to a 50 percent product tax or value-added tax. Where the manufactured products contain certain imported parts and materials, customs duty, product tax or value-added tax shall be exempted or levied retroactively in accordance with the stipulations of Article 15.

elect to reinvest their profit earnings in the construction of infrastructure and agricultural development enterprises, export-oriented and technologically - advanced enterprises within Hainan island.

Investors from other parts of China shall be free to remit their profits from enterprises on Hainan Island. Income taxes on profits remitted to other places in the interior of China within ten years from the first profit-making year are not to be paid further.

Article 20 When coming to Hainan island to negotiate an investment or to trade, promote economic and technological exchange, visit relatives or to tour, foreigners from countries or regions having diplomatic relations or official trade links with China, may apply for entry visas at the port of Haikou or Sanya if their stay in Hainan does not exceed 15 days; those who need to stay in Hainan longer or who want to go on to other parts of China for appropriate reasons, may apply for an extension of the visa or obtain an additional visa endorsement according to relevant provisions.

Foreigners who permanently live on Hainan Island, or who invest in the establishment of local enterprises or participate in the development of the island, and their accompanying family members may upon application be granted multiple entry visas by the authorities concerned under the People's Government of Hainan Province.

Article 21 Compatriots from Hong Kong, Macao and Taiwan as well as overseas Chinese holding valid passports or documents issued by the competent authorities under the State Council or by their authorized agencies may come to Hainan Island or proceed to other places within China without visas. Compatriots from Taiwan may, at the ports in Hainan Island, directly apply for a Travel Certificate for Compatriots from Taiwan. The People's Government of Hainan Province is authorized to examine and approve the dispatch abroad of personnel by domestic organizations in Hainan Province that are to set up economic, trade or tourism offices or to establish enterprises abroad, except otherwise provided by the State.

Article 22 Matters not covered in these Provisions may be handled by the People's Government of Hainan Province according to the provisions concerning special economic zones.

The rules for the implementation of these Provisions shall be formulated by competent departments under the State Council in conjunction with the People's Government of Hainan Province.

Article 23 These Provisions shall enter into force as of the date of Promulgation.