

Response to *Notice to Supply Tax Information*

To the Second Inspection Office of the Beijing Local Taxation Bureau:

On July 20, 2011, Beijing Fake Cultural Development Limited, "Fake Ltd." in short, received a *Notice to Supply Tax Information* (Second Taxation Bureau Inspection Office Notice, 2011, No.20) from the Taxation Bureau. It required Fake Ltd. to provide documents, evidences and all materials related to paid, remitted and withheld, or collected and remitted taxes, and to submit them to the bureau for inspection before July 29, 2011.

The response from Fake Ltd. is as follows: By making arrests before inspecting accounting records and by taking joint actions between the Public Security Bureau and Taxation Bureau, the investigation on Fake Ltd. has violated administration procedures for tax collection and inspection. For over two weeks since the tax case hearing, the Taxation Bureau has not returned accounting records in accordance to the law, and the whereabouts of two Fake Ltd. staff members in charge of finances are still unknown. Under such circumstances, it is impossible for Fake Ltd. to supply any accounting information to the bureau as requested in the *Notice to Supply Tax Information*.

The following outlines facts related to the Taxation Bureau's investigation on Fake Ltd., please take note as reference:

In the morning of April 3, officers from the Beijing Public Security Bureau arrested Ai Weiwei (Designer at Fake Ltd.) at the Beijing Capital International Airport. At present, no legal procedures whatsoever have been administered for the arrest.

At noon on April 3, multiple law enforcement departments from the Beijing Public Security Bureau conducted a search on Fake Ltd. and Ai Weiwei's residence for almost 12 hours. Over 100 items including computers, hard drives, and books have been confiscated, but no accounting records were taken.

At around 11:30pm on April 6, the Taxation Bureau and the Beijing Public Security Bureau placed an auditing company in trust and confiscated Fake Ltd.'s accounting

information between the year 2000 and February 2011, including original receipts, bookkeeping records, taxation records, assets and liabilities statements, and profit and loss accounts. Meanwhile, the Xinhua News Agency released an English report, stating that the police were "investigating Ai Weiwei for suspected economic crimes in accordance with the law."

On April 7, Hu Mingfen, Fake Ltd.'s accountant, has disappeared. On April 9, Fake Ltd.'s shareholder and treasurer Liu Zhenggang has been kidnapped, and his wife filed the case at Beijing's Dazhongsi police station.

On April 8, the Taxation Bureau and the Beijing Public Security Bureau arrived at Fake Ltd. and confiscated all accounting records, contracts and office stamps between 2005 and 2010. During the visit, you presented the Notice of Tax Inspection and Inquiry Notice for the first time, requesting the company's legal representative Lu Qing to visit the Taxation Bureau on April 12 for questioning.

At late night of April 10, Fake Ltd.'s driver, Zhang Jinsong has disappeared. His family filed the case at the Nangao police station in Chaoyang District.

On April 12, the Taxation bureau had the first questioning session with Lu Qing, Fake Ltd.'s legal representative.

On May 20, Xinhua News Agency released a brief statement: "Journalists from the Xinhua News Agency learned from the Beijing Public Security Bureau that the police department has investigated into Ai Weiwei's suspected economic crimes. It is now preliminarily verified that Beijing Fake Cultural Development Limited, which Ai Weiwei has actual physical control, was found to have evaded huge amounts of taxes and had intentionally destroyed accounting documents."

In the evening of May 31, DW News from the United States reported "Informed sources from Beijing revealed that the case of Chinese artist Ai Weiwei will soon have an official result. It is reported that Ai Weiwei is primarily charged with tax evasion, and the total amount is near 20 million Renminbi. The source also said that Ai Weiwei has already pleaded guilty to the crimes." The report has been widely circulated.

On the evening of June 22, after Ai Weiwei was detained for 81 days, he was released as being 'on bail pending trial'. Officials did not provide any explanation for his family members.

At 10:15pm that night, Xinhua published a brief report in English and Chinese: "The Beijing police department said Wednesday that Ai Weiwei has been released on bail because of his good attitude in confessing his crimes as well as a chronic disease he suffers from. The decision comes also in consideration of the fact that Ai has repeatedly said he is willing to pay the taxes he evaded, police said. The Beijing Fake Cultural Development Ltd., a company Ai controlled, was found to have evaded a huge amount of taxes and intentionally destroyed accounting documents, police said."

On June 23, Zhang Jinsong (Driver for Fake Ltd.) was released "on bail pending trial" after being held for 75 days.

On June 27, the Taxation Bureau issued a *Notice of Tax Administration Penalty*, requesting the company pay for stamp duty and fine, business tax, urban maintenance and construction tax, corporate income tax and non-compliance fines and penalties totalling ¥12,206,299.27. Yet the notice did not mention any allegations of "intentionally destroying accounting evidence".

On June 27, almost three months after the kidnap of Liu Zhenggang (Fake Ltd.'s shareholder and treasurer), Fake Ltd. learned that Liu had a heart attack during interrogations with the police, and was under "monitored hospitalization" at the Lanzhou Military Hospital. He was ordered not to make contact with anyone.

By the end of June, a family member of Hu Mingfen (Fake Ltd.'s accountant) told the company that Hu Mingfen has already been released on bail pending trial in mid-June, and one of the conditions attached is that she may not make contact with anyone.

On June 29, Fake Ltd. submitted a written request for an open hearing and for the return of above-mentioned accounting records and confiscated items.

On July 7, the Taxation Bureau sent a *Notice of Tax Administration Penalty Hearing*, informing us that a closed hearing would be held on July 14, limited to Fake's legal representative Lu Qing and one to two other representatives.

On July 11, Fake Ltd. submitted written objections to the Bureau, pointing out that the hearing should be open to the public, and informed you that the accounting records have been held for over three months, violating the legal limits for confiscated items. The bureau gave a verbal response, that Fake Ltd. should obtain the accounting records from the Public Security Bureau. Since the case involves "commercial secrets" of third parties, the hearing will remain as a closed hearing.

On July 14, the day of the hearing, the Taxation Bureau still has not returned the accounting records. Since inspectors only showed photocopies from the police department as evidence, Fake Ltd. expressed that it cannot take responsibility for the authenticity and completeness of the information. During the hearing, you were unable to show any applications from third parties requesting confidentiality; it is obvious that this particular hearing has not been held in accordance with the law.

On July 19, Fake Ltd. received a phone call from the Taxation Bureau, informing us that within three days from July 20, Fake Ltd. may visit the Shibalidian police station in Chaoyang District to inspect accounting records. Fake Ltd. refused to inspect its own accounting records at the police station, and requested once again for the return of the company's documents as required by law.

On July 20, Fake Ltd. submitted a Second Letter of Request to the Bureau, explaining the reason for refusing to inspect accounting records at the police station: "Fake Ltd.'s tax case has already entered its hearing procedures, it is inappropriate to request the company to inspect accounting records at other institutions. The Public Security Bureau is not a suitable body to be in charge of the enforcement of tax administration procedures, and has no right to hold the company's accounting records." The company has requested once again for return of its complete accounting records, and to have a fair and open hearing in accordance with the law.

The above states the facts and reasons that Fake Ltd. is unable to provide the accounting information and tax evidences that the Bureau requested. I hereby submit my response.

Beijing Fake Cultural Development Limited

July 27, 2011

Legal representative (signed): Lu Qing