

Permitted Activities and Establishment

	Representative Office	Trading Company	Commercial Company	Service Company	Manufacturing Company
Permitted Activities	<ul style="list-style-type: none"> • Business Liaison • NO direct business activities are allowed 	<ul style="list-style-type: none"> • International Trade • Trade with companies outside free trade zone through an import and export company unless such companies have import and export rights 	<ul style="list-style-type: none"> • Import and export of products • Whole sale • Retail • Commission agent • Franchise 	<ul style="list-style-type: none"> • Services, e.g. technical services, consultancy services, etc. 	<ul style="list-style-type: none"> • Manufacturing of products • Sale of self-manufactured products
Capital Requirement	<ul style="list-style-type: none"> • No registered capital required 	Minimum registered capital: <ul style="list-style-type: none"> • Law: RMB30,000 and in line with the scale of business • Practice: >RMB30,000, and for the purpose of issuance of VAT invoices, at least RMB1M 	Minimum registered capital: <ul style="list-style-type: none"> • Law: RMB30,000 and in line with scale of business • Practice: >RMB30,000 and for the purpose of issuance of VAT invoices, at least RMB1M 	Minimum registered capital: <ul style="list-style-type: none"> • Law: RMB30,000 and in line with scale of business • Practice: >RMB30,000 and should be in line with the scale of business 	Minimum registered capital: <ul style="list-style-type: none"> • Law: RMB30,000 and in line with scale of business • Practice: >RMB30,000 and for the purpose of issuance of VAT invoices, at least RMB1M
Set Up Branches	<ul style="list-style-type: none"> • Not permitted 	<ul style="list-style-type: none"> • Different free trade zones have different policies • In Shanghai, branches outside free trade zone for non-operation purpose are permitted. Branches for operation purpose are not permitted unless business scope includes commercial business 	<ul style="list-style-type: none"> • Branches are permitted 	<ul style="list-style-type: none"> • Branches are permitted 	<ul style="list-style-type: none"> • Branches are permitted
Time for Establishment (exclusive of post-registration)	<ul style="list-style-type: none"> • Generally, 5-15 working days 	<ul style="list-style-type: none"> • Generally, 7-15 working days, and different free trade zones have different policies • Additional time may be required, depending on the amount of total investment amount, etc. 	<ul style="list-style-type: none"> • In practice, around 3 months • Additional time may be required, depending on the amount of total investment, products of the commercial company, etc. 	<ul style="list-style-type: none"> • In practice, around 2 months • Additional time may be required, depending on the amount of total investment, industrial sector, etc. 	<ul style="list-style-type: none"> • In practice, around 2.5 months • Additional time may be required, depending on the amount of total investment, products the company will manufacture, etc.

Corporate Vehicles in the People's Republic of China

Comparison of Different PRC Corporate Vehicles

VIVIEN CHAN & Co.
GREATER CHINA LAWYERS

HONG KONG • BEIJING • SHANGHAI
CHONGQING* • SHENZHEN*

	Representative Office	Trading Company	Commercial Company	Service Company	Manufacturing Company
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Tax

General Types of Taxes	<ul style="list-style-type: none"> • Business Tax • Enterprise Income Tax 	<ul style="list-style-type: none"> • Customs Duties • Value-added Tax • Enterprise Income Tax 	<ul style="list-style-type: none"> • Customs Duties • Value-added Tax • Enterprise Income Tax 	<ul style="list-style-type: none"> • Business Tax • Enterprise Income Tax 	<ul style="list-style-type: none"> • Customs Duties, if raw materials are imported for finished products sold in China • Value-added Tax • Enterprise Income Tax
Tax Rate	<ul style="list-style-type: none"> • Business tax: 5% • Enterprise income tax: 33% in general on expenditure, but in some cities, e.g. in Shenzhen, EIT rate is 15% • Enterprise income tax rate will be 25% from 1 Jan 2008, subject to further clarification on the taxes applicable to rep offices 	<ul style="list-style-type: none"> • Customs duties: Vary according to HS Code categorization • Value-added Tax: generally 17% for common VAT payers • Enterprise income tax: 15%-33% on profits, depending on location • Enterprise income tax rate will be 25% from 1 Jan 2008; further implementing rules may be issued 	<ul style="list-style-type: none"> • Customs duties: Vary according to HS Code categorization • Value-added Tax: generally, 17% for common VAT payers • Enterprise income tax: 15%-33% on profits, depending on location • Enterprise income tax will be 25% from 1 Jan 2008; further implementing rules may be issued 	<ul style="list-style-type: none"> • Business Tax: 5% in general • Enterprise income tax: 15%-33% on profits, depending on location • Enterprise income tax rate will be 25% from 1 Jan 2008; further implementing rules may be issued 	<ul style="list-style-type: none"> • Customs duties: Vary according to HS Code categorization • Value-added Tax: generally 17% for common VAT payers • Enterprise income tax: generally, 15%-24%, depending on location • Enterprise income tax rate will be 25% from 1 Jan 2008; further implementing rules may be issued
Tax Preferential Treatment	<ul style="list-style-type: none"> • Generally, no tax preferential treatment for representative offices 	<ul style="list-style-type: none"> • Different free trade zones may have different preferential treatments • In Shanghai, the current enterprise income tax rate is 15% 	<ul style="list-style-type: none"> • Generally, no special preferential treatment for commercial companies • In Shenzhen, the current enterprise income tax rate for commercial companies is also 15% 	<ul style="list-style-type: none"> • Generally, no special preferential treatment for service companies • In Shenzhen, the current enterprise income tax rate for service companies is also 15% 	<ul style="list-style-type: none"> • Generally, the enterprise income rate for a manufacturing company is 15%-24%, lower than other types of enterprises • For enterprise income tax of a manufacturing company with business term of more than ten years, there may be two years' tax holidays since the first profits making year and 50% reduction for three years afterwards • The above tax preferential treatment may be removed due to the new Enterprise Income Tax Law

Employment

Capability of Employment of Staff	<ul style="list-style-type: none"> • CANNOT employ staff directly • Employment through an employment agent 	<ul style="list-style-type: none"> • Can employ staff directly 	<ul style="list-style-type: none"> • Can employ staff directly 	<ul style="list-style-type: none"> • Can employ staff directly 	<ul style="list-style-type: none"> • Can employ staff directly
Restrictive Covenant	<ul style="list-style-type: none"> • The law is silent as to whether a restrictive covenant between a representative office and an employee is enforceable 	<ul style="list-style-type: none"> • Restrictive covenant with employee can be enforceable 	<ul style="list-style-type: none"> • Restrictive covenant with employee can be enforceable 	<ul style="list-style-type: none"> • Restrictive covenant with employee can be enforceable 	<ul style="list-style-type: none"> • Restrictive covenant with employee can be enforceable
Employment Agent Fee	<ul style="list-style-type: none"> • Have to pay employment agent fee 	<ul style="list-style-type: none"> • No need to pay 	<ul style="list-style-type: none"> • No need to pay 	<ul style="list-style-type: none"> • No need to pay 	<ul style="list-style-type: none"> • No need to pay