

## BUSINESS STRUCTURES IN CHINA

It is intended for the information of clients or prospective clients. As such, it is designed to provide general information about doing business in China. The information set out is not, nor is it intended to be, exhaustive. While every effort has been made to ensure the accuracy and reliability of the information in this document, we cannot accept any responsibility for errors regarding any such information. Such information does not purport to be and is not legal, tax or other professional advice. Our aim has been to provide a broad overview. We will be pleased to offer more comprehensive and specific professional advice to individual clients depending on the situation.

### GENERAL INFORMATION



Source: Wikipedia

China has a population of more than 1.3 billion and covers an area of 9.6 million square kilometres. It is divided into 23 provinces, 5 autonomous regions (Tibet and others), 4 Central Government municipalities, and two Special Administrative Regions (Hong Kong and Macau). Taiwan remains an independent and separate nation. Hong Kong and Macau are self-governing entities with a very high degree of autonomy including their own legal systems, currencies, immigration controls and passports, taxation and international treaties.

The Chinese coastline is 18 thousand kilometres long with many commercial harbours. Early foreign investments, as a result of government policy, focused on the coastal provinces but increasingly the advantages of other provinces and inland cities are being discovered. The six Special Economic Zones of Hainan, Zuhai, Shenzhen, Shantou, Xiamen and Pudong are situated on the coast.

China is not a homogeneous country and there are significant cultural and linguistic differences between the north of the country and the south. There is also an east-west divide since economic growth has been strongest in the coastal areas and the interior provinces have lagged behind.

In China there are often four layers of government – National, Provincial, City and Municipality. There are different rules and regulations and taxes in each place and also there are industry-specific regulations which are enforced. China's economic growth has been spectacular since the late seventies when economic reforms began.

The Chinese currency the Renminbi ("RMB") or Yuan is not yet fully convertible although it is expected to become so in the future. In past years the currency has been closely aligned to the US Dollar although recently the Chinese government has allowed more flexibility.

#### PORTFOLIO INVESTMENT IN CHINA

Many Chinese companies are listed on the Hong Kong, New York and London stock exchanges and on the secondary markets. In China there are stock exchanges in Shanghai and Shenzhen. Companies listed in China have two classes of shares "A" and "B". "A" shares are quoted in RMB and are mainly restricted to local investors although some foreign investment funds can buy them. "B" shares are quoted in US dollars and are available to foreigners. There are plans to eventually abolish the distinction. Several investment managers operate funds dedicated to Chinese stocks from Hong Kong and other financial centres and this would be the recommended channel for investors wishing exposure.

### DOING BUSINESS WITH NO PRESENCE IN CHINA

Over the past twenty years China has become a major manufacturing and exporting country. Shanghai and the north is predominant in heavy industry – steel, automobiles, ships and petrochemicals with the south concentrating on electronics, garments, toys and consumer goods.

Many companies source goods from China without having any permanent presence in the country.

Often middlemen or trading companies are involved in the process. Although they will earn fees for their services they generally perform a useful function. Detailed, western-style contracts are rare and here at Mann Made we believe it is important for the following elements to be clearly agreed before a business relationship commences:

- Unambiguous specifications of the goods
- Quantities and prices
- Delivery/shipment dates
- Responsibility for warranty claims
- Payment terms

Quality control is critical and there are a number of quality assurance companies operating in China who will undertake product inspection during production and pre shipment and factory verification for overall quality standards, compliance with labour regulations, etc.

Chinese manufacturers will generally not be in a position to extend significant credit and will require payment by means of letter of credit or similar upon shipment.

Many companies sourcing goods in China will use a Hong Kong company to reinvoice the sales to the buyer. The goods may be shipped directly from China but the Hong Kong company can take a margin on everything sold. Properly structured no tax is payable in Hong Kong since there is no taxable source in the territory. Each situation

is different and Mann Made will be pleased to advise on what is possible (see Mann Made's Guides to Offshore Operations and Hong Kong companies for further information).

Some buyers feel that conducting business through a Hong Kong company will also enhance credibility in China and may lead to more favourable business terms being negotiated. Hong Kong and China have also entered into a series of agreements called the Closer Economic Partnership Arrangements (CEPA) which give Hong Kong companies some advantages in certain industries in China. To avoid your company having to rent an office or employ staff in Hong Kong, Mann Made Group can cost-effectively manage all functions of your Hong Kong holding company by providing incorporation and subsequent outsourcing services such as accounting, Tax, financial reporting and corporate compliance.

## STRUCTURES FOR INVESTMENTS

The three typical methods of doing business directly in China are Representative Offices, Wholly Foreign Owned Enterprises and Joint Ventures. The regulations, tax treatment, business categories, and requirements for each type of business are different. These differences are not only limited to the types of business, but are also specific to each province, city and sometimes district.

The brief information below is intended to give a general idea of the major holding structures but detailed advice is necessary since each case is different.

Mann Made Group has years of experience in helping clients to start and maintain operations in China and is able to further assist.

## HOW MANN MADE CAN HELP

We can establish Chinese companies and structure them accordingly. We can also provide ongoing services to include the provision of corporate services (the provision of officers, registered office etc.), plus on-going administration, tax and VAT registration, bank account opening, tax and VAT compliance, bookkeeping and accounting services and other services if required.

## CONTACT US

For more information concerning the services we can provide and our costs, please contact Edward Gumbley, director of Mann Made Hong Kong Ltd as follows:

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## THE MANN MADE GROUP

Mann Made Hong Kong Ltd is part of the Mann Made Group of companies and has offices in the Isle of Man, United Kingdom, Hong Kong and Malta and is an international group providing corporate and trust structuring and services worldwide. Should you be interested in the services we can provide please visit our website or contact us as follows:

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