



The Changing Business Environment in China

Mr. Jack Wu of Orangefield ICS
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4. Shanghai Free Trade Zone

- What is the offer? Incentives? What are the considerations to go in or not?





New PRC Company Law

Effective March 1st, 2014

Aim:

To streamline and simplified company registration procedure

Core Requirements Changes in:

- Registered Capital
- Capital Verification
- Annual reporting system





New PRC Company Law – Registered Capital

- **No Minimum Registered Capital Required**
 - Previously, there is a minimum amount of registered capital set for setting up a company in China, now, there is no minimum required
- **Cancel of 30% In Cash Registered Capital Paid Up**
 - Previously, 30% of registered capital must be paid up in cash; now registered capital can be paid up 100% in the means of technology, IP, capitals, land usage rights and etc.
- **Registered Capital will not be shown on business license**
 - Even though not shown, the capital registered will still be the base of amount the company is civilly responsible in its operation





New PRC Company Law – Capital Verification & Annual Reporting System

- **Cancel of Capital Verification**
 - Previously, after registered capital is paid up, an official verification is required to ensure actual injection of capital
- **New Annual Reporting System**
 - The old company annual inspection system is replaced by the simplified annual report system, authorities just conduct random spot check on the information provided.



Review an Old Business License – Indication of Information

企业法人营业执照 (副本)

编号: N9 0251212

注册号 310000400369998 (金山)

名称 上海哈威通信科技有限公司

住所 上海市金山区山阳镇山丰路189号第1、2、3幢

法定代表人 陈伟中

注册资本 美元60万元

实收资本 美元60万元

公司类型 有限责任公司(中外合资)

经营范围 研发、生产通信设备器材、线缆、管道及相关配件和施工机具, 销售公司自产产品, 提供售后服务, 技术咨询(涉及行政许可的凭许可证经营)。

年度检验情况

登记机关 上海市工商行政管理局

2008年 三月 五日

股东(发起人) POWER VENTRE INVESTMENT LIMITED, 上海哈威新材料技术股份有限公司, 上海泰厨通信工程有限公司

营业期限自 二00四年一月二十日至 二0三四年一月十九日

成立日期 二00四年一月二十日

组织机构代码757941697
 证照编号0000002200803050048
 统一社会信用代码022004012000065
 本执照有效期至 二00四年一月十九日

须知

1. 《企业法人营业执照》是企业法人资格和合法经营的凭证。
2. 《企业法人营业执照》分为正本和副本, 正本和副本具有同等法律效力。
3. 《企业法人营业执照》正本应当置于公司的醒目位置。
4. 《企业法人营业执照》不得伪造、涂改、出租、出借、转让。
5. 登记事项发生变化, 应当向公司登记机关申请变更登记, 换领《企业法人营业执照》。
6. 每年三月一日至六月三十日, 应当参加年度检验。
7. 《企业法人营业执照》被吊销后, 不得开展经营活动。
8. 办理注销登记, 应当交回《企业法人营业执照》正本和副本。
9. 《企业法人营业执照》遗失或者毁坏的, 应当向公司登记机关指定的报刊上声明作废, 申请补领。



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New Business License – as of March 1, 2014

企业法人营业执照

注册号

名称	称
企业类型	型
住所	所
法定代表人	人
成立日期	期

登记机关
南方日报
www.nfdaily.cn

1. 经营范围：...
2. 注册资本：...
3. 核准日期：...

4123456789



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Possible Challenges on Businesses

- Indication of registered capital, paid up registered capital on business license served as a way for businesses to check the financial creditability of the Chinese counterpart; without these information, other due diligence must be done cautiously
- Cancel of capital verification means there will be no way for us to know whether the company has sufficient funds to conduct the business they claim to be conducting

→ **Cautious**
→ **More Due Diligence**





VAT Reform

- China Tax Revenue from Domestic VAT in 2012: 26.26%/ 26,415.69 RMB (in 100 millions)
- Significant source of tax revenue for the Chinese government
- VAT is a turnover taxes, under the current regulatory regime, there are 4 turnover taxes in China: VAT, Business Tax, Consumption Tax and Stamp Duty
- VAT revenue is shared between local and state tax bureau at 25/75
- Pilot program started in Shanghai Jan 1, 2012
- June 2012, for Tianjin, Anhui, Hubei, Guangdong, Shenzhen, Fujian, Xiamen, Jiangsu, Beijing, Zhejiang
- August 1, 2013 National Implementation
- Aim: No Business Tax by 2015





VAT Reform

Features:

- Single VAT regime for both goods and services
- Migrate services currently taxed under the Business Tax to VAT
- Service providers able to claim input VAT credits on goods or services purchased
- Indirect tax on services passed on to end consumer

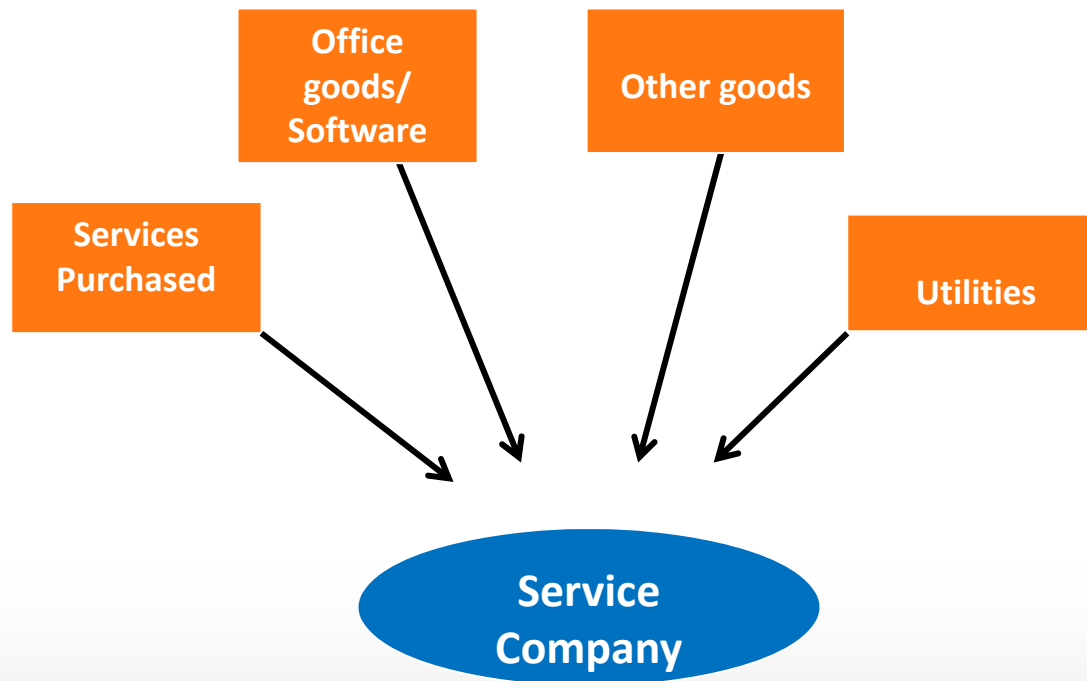
REDUCES COSTS OF DOING BUSINESS

- **Structural tax reduction**
- **Eliminate tax cascading and double taxation**



VAT Reform

The root problem of double taxation



Cost (VAT + BT) + Margin = Service Fee (subject to BT)



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VAT Reform

Taxable Items	BT Rate	VAT Rate
Transportation	3%	11%
Construction	3%	N/A
Finance & Insurance	5%	6%
Postal Service & Telecommunication	3%	6%
Cultural & Sports	3%	6%
Entertainment	5%-20%	N/A
Service	5%	6%
Transfer of Intangible Assets	5%	N/A
Sales of Immovable Assets	5%	N/A
Tangible Assets Rental Service	5%	17%





VAT Reform

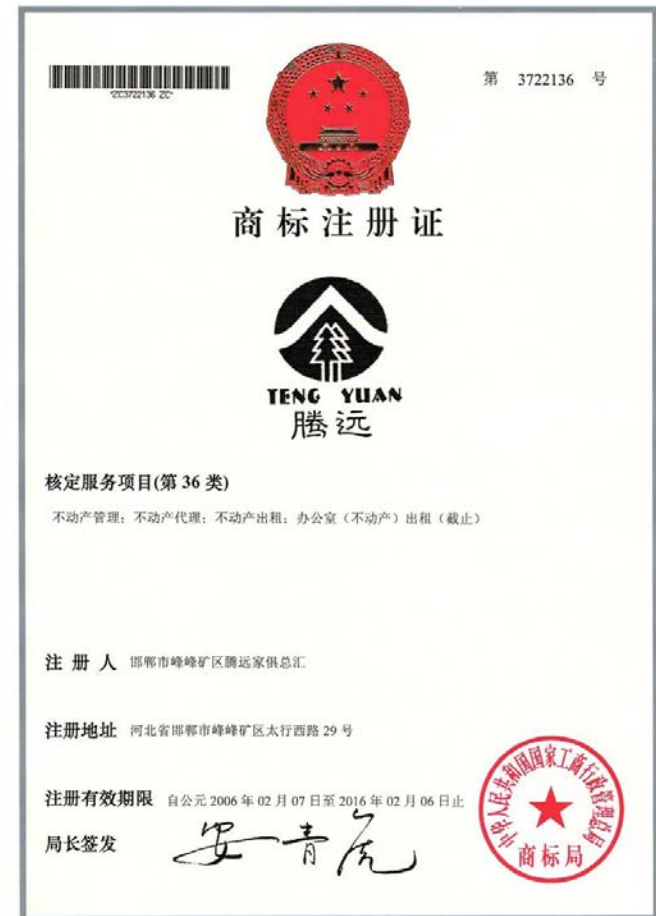
New Zero / Exempt VAT Items (Export Services)

TAXABLE ITEMS	VAT RATES
International Transport Services	0%
R&D Services	0%
Design Services	0%



New Trademark Law

- Introduction of the principle (article 7) of “good faith”
- Deter trademark squatters from filing dubious registrations with intent to resale it to the rightful owner
- Also new law (article 59) assist foreign owners in seeking cancellation applications against the “trademark stealer”
- Article 64 provide relief for the foreign company if the squatter initiates an enforcement action against the foreign brand





New Trademark Law



Register! And register strategically!
First to file does not guarantee successful application



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New Trademark Law – Case

- Viagra/Pfizer is known as the poster child for foreign companies that failed to register Chinese-language trademark
- “LittleViagra 小伟哥” registered in both Chinese and English in Class 9 for electronics
- There is a chance that Pfizer never get the Chinese word for “伟哥” back





Shanghai Free Trade Zone

- Concept to provide more “at ease” business environment
- “Duty free zone” specialize for companies that do only assembly in China and resell products worldwide
- Attractive Incentives
- What to consider?



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Shanghai Free Trade Zone

- Negative list of 18 sectors
- No nominal or registered capital required
- Expedited process for company set up
- Relaxed Foreign Exchange “for qualified pilot FTZ entities”
- No duty or VAT for import → processing/assembling in China → export for sales

Implementation of incentive is another question





Shanghai Free Trade Zone

What are the considerations?

- Business model
- Customer and supplier location
- Financing options and needs
- Comparison with the pros and cons outside the zone
- Customer and supplier payment settlement requirements
- Tax liabilities and options



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Thank you!



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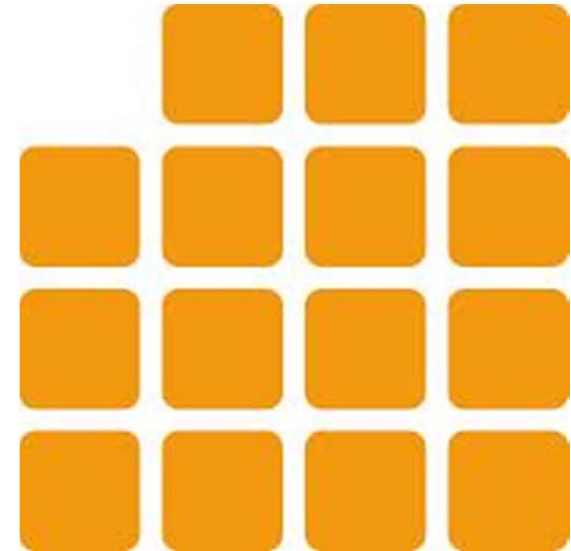
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