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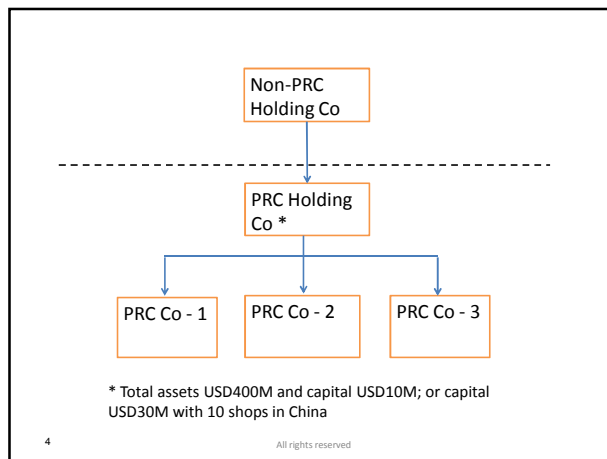
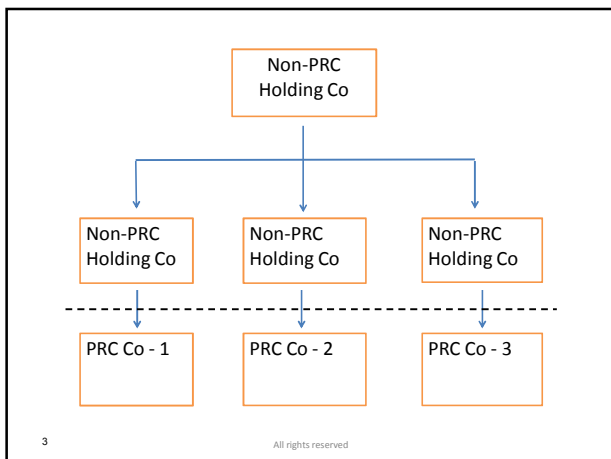
Legal Structure for FDI in China

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Kuala Lumpur
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Legal Structure for PRC Entry Modes

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Cross-border tax planning:

- Legal structure
- Transaction arrangement
- Choice of jurisdictions, **regions and locations**

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Special economic areas (SEA) in China

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Special economic areas (SEA)

- SEA in different parts of China includes free trade zones, export processing zones, bonded logistic centers, bonded logistic parks, bonded warehouses, etc.
- Legal implications will arise for goods shipped between SEA and elsewhere in China

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Comparison: Setting up a FICE or a branch (1)

Legal requirements

1. No capital required for branch in general
2. Scope of business for the branch cannot exceed that for the head office
3. Branch is required to apply for a branch business license, national tax and local tax registrations
4. Branch has no I/E rights

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Comparison: Setting up a FICE or a branch (2)

Business consideration for the branch

1. Whether the branch will sign sales contract and issue tax invoices
2. Whether Branch will carry on retail business
3. Labor and social security administration in different cities

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Comparison: Setting up a FICE or a branch (3)

Transfer pricing rules for goods sold between HO and branch

- HO (Shanghai) => imported goods => Branch (Su Zhou) => domestic buyer

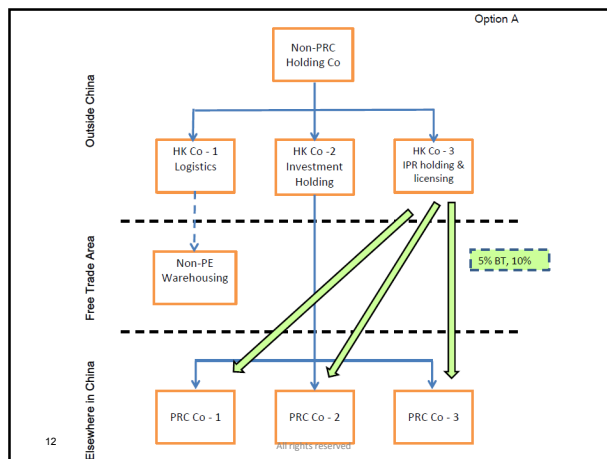
 1. I/E rights and contractual rights?
 2. Transfer price for VAT purposes = Cost x (1 + 10%)

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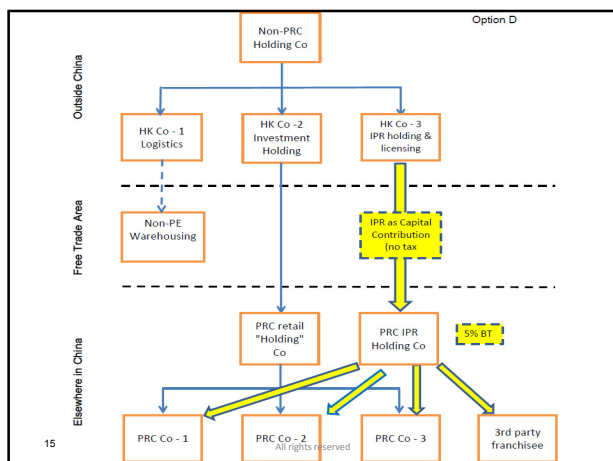
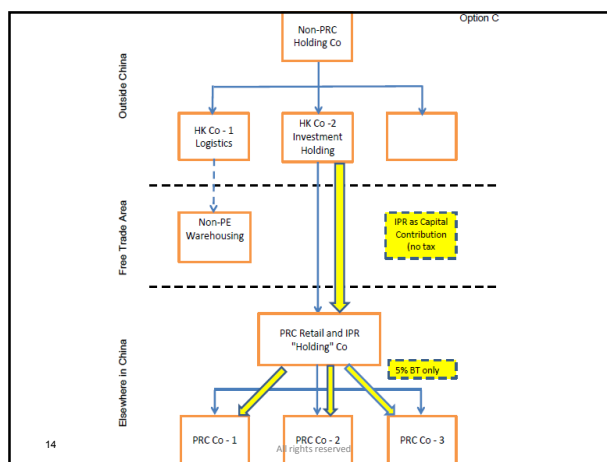
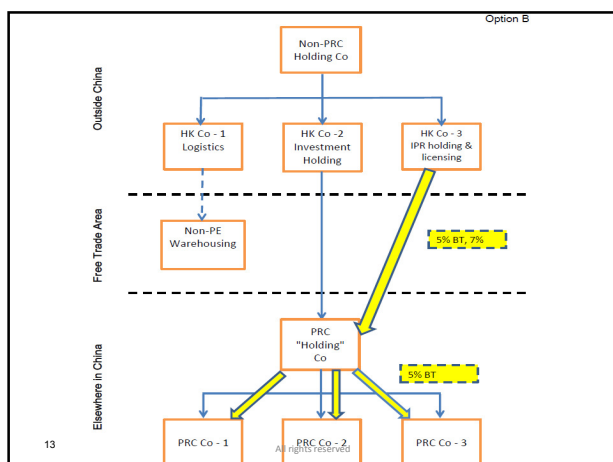
Case study: business plan to set up retail shops in major cities in China

Entry mode and legal structure

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The following summarizes our comparison and analysis of different options:

	Option A	Option B	Option C	Option D
Legal structure in Mainland China		PRC Holding Co	PRC Retail and IPR Holding Co	PRC Retail Holding Co and PRC IPR Holding Co
Storage and logistic support?	Yes	Yes	Yes	Yes
Efficient management for customs matter?	No	Yes	Yes	Yes
CIT tax saving?	No	Yes	Yes	Yes
Avoid double BT on internal transfer?	No	No	Yes	Yes
Tax saving in VAT?	No	No	No	Yes

Tax efficiency

- Where the percentage of value added in retail sales is higher than the break-even rate of 29.41% (See VAT accounting and planning), it is worth to set up a separate IPR property holding company to pay business tax.



End

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