



INCENTIVES FOR SETTING UP REGIONAL HEADQUARTERS IN CHINA

On May 21, 2009, the Beijing Municipal Government issued certain measures to encourage multinational companies to set up regional headquarters in Beijing. Subsequently, the Beijing government issued the implementation rules for those measures on June 24, 2009. Replacing previous regulations on the same subject, the new regulations have reduced the capital requirements for setting up regional headquarters (“RHQ”) in Beijing, expanded the permitted business scope of RHQ, and offered various financial incentives to RHQ in Beijing. The purpose of these local regulations is to attract multinational companies to set up new RHQs in Beijing or move their existing RHQs to Beijing and therefore boost the local economy.

Beijing is not the only city that tries to boost the so called “Headquarter Economy.” Several other cities have issued similar local regulations offering incentives to RHQs established in their respective

locations. According to national regulations, RHQ status is granted to some China investment holding companies established by multinationals, which require a large amount of registered capital and direct investments in China operating subsidiaries. The local regulations stretch RHQ to shared service companies that exercise certain management functions of China and/or overseas affiliates. In the table that follows, we summarize and compare the setting up requirements, business scope, and preferential policies with respect to RHQs as provided in the local regulations of Beijing, Shanghai, Guangzhou, and Shenzhen. The summary table is not a comprehensive analysis or exhaustive list of all relevant provisions of the regulations; it is intended to offer an easy comparison for multinational companies to select a suitable location for their RHQs in China. The tables do not include the incentives that may be granted by local governments in practice that are not based on published regulations.

SETTING UP REQUIREMENTS FOR RHQ

		Minimum Registered Capital	Parent Company's Financial Strength	Minimum Annual Revenue	Minimum Local Retained Part of Tax Paid	No. of Companies Parent is Authorized to Control
Beijing		<ul style="list-style-type: none"> • \$2M 	<ul style="list-style-type: none"> • Parent company's total net assets should be no less than \$400M • Total paid-in registered capital contributed by parent company into China should be no less than \$10M • RHQ should be parent company's highest operating managerial agency within China¹ 			<ul style="list-style-type: none"> • At least 3 within China; or • At least 6 within China and overseas
Shanghai		<ul style="list-style-type: none"> • \$2M 	<ul style="list-style-type: none"> • Parent company's total net assets should be no less than \$400M • Parent company's accumulated paid-in registered capital within China should be no less than \$10M 			<ul style="list-style-type: none"> • At least 3 within China; or • At least 6 within China and overseas
Guangzhou		<ul style="list-style-type: none"> • \$2M 	<ul style="list-style-type: none"> • Parent company's total net assets should be no less than \$300M • Accumulated paid-in registered capital of companies invested or managed by the RHQ within China should be no less than \$30M 			<ul style="list-style-type: none"> • At least 3 within China or overseas
Shenzhen	Integrated RHQ	<ul style="list-style-type: none"> • RMB200M (or RMB200M of net assets) 		<ul style="list-style-type: none"> • RMB1000M in the previous year 	<ul style="list-style-type: none"> • RMB50M in the previous year 	<ul style="list-style-type: none"> • At least 3 outside of Shenzhen • No less than 30% revenue derived from such companies
	Functional-General RHQ	<ul style="list-style-type: none"> • RMB100M (or RMB100M of net assets) 		<ul style="list-style-type: none"> • RMB400M in the previous year 	<ul style="list-style-type: none"> • RMB20M in the previous year 	
	Functional-Specific RHQs (High-End Service Industry Commercial Trade & Logistics and Foreign-Invested Holding Functional-Specific RHQ)	<ul style="list-style-type: none"> • RMB20M 		<ul style="list-style-type: none"> • RMB100M or 1500M in the previous year (RMB100M for High-End Service Industry, RMB 1500M for Commercial Trade & Logistics) 	<ul style="list-style-type: none"> • RMB5M in the previous year 	
	Growth RHQ (Modern Financial, Hi-Tech Industry, Modern Logistics, Modern Culture Industry, and Traditional Priority Industry Growth RHQ)			<ul style="list-style-type: none"> • RMB100M 	<ul style="list-style-type: none"> • RMB3M • Annual growth no less than 20% 	<ul style="list-style-type: none"> • No less than 30% revenue derived from managed companies

¹ Requirements for internationally renowned multinational companies could be relaxed.

BUSINESS SCOPE FOR RHQ

	Items of Business Scope
Beijing	<ul style="list-style-type: none"> • Investment and operation decision-making • Production and operation management • Capital operation and financial management • Technology support, research, and development • Marketing services • Import, export, and domestic distribution • Logistics services • Information services • Outsourcing services to overseas entities including the multinational company • Staff training and management • Other operation, management, and service activities permitted by the law
Shanghai	<ul style="list-style-type: none"> • Investment and operation decision-making • Capital operation and financial management • Technology support, research and development • Import, export, and domestic distribution • Logistics services • Shared services within the multinational company and service outsourcing for other overseas companies • Staff training and management
Guangzhou	<ul style="list-style-type: none"> • Investment and operation decision-making • Marketing services, including providing import, export, and goods distributing, or after-sales service to managed entities • Capital operation and financial management, including balancing foreign exchange, cash pooling, assistance to obtaining loans, and providing guarantees for managed entities • Technical support, research and development • Staff training and management, including assisting the companies under its management in human resource management • Information and logistics service, including providing the companies under its charge with market information, investment policy consultation, transportation, warehousing, and other services • Service outsourcing for overseas companies • Other operation, management, and service activities permitted by the law

PREFERENTIAL POLICIES FOR RHQ

Name of Cities	Bonus for Setting Up RHQ	Subsidy for Renting, Building, or Buying Office	Immigration Procedure	Annual Revenue Bonus	Others
Beijing	<ul style="list-style-type: none"> RMB5M for newly established² RHQ with a registered capital between RMB100M (included) and RMB500M RMB8M bonus for newly established RHQ with a registered capital between RMB500M (included) and RMB1000M RMB10M bonus for newly established RHQ with a registered capital over RMB1000M (included) Bonus will be paid in 3 annual installments of 40%, 30%, and 30%³ 	<ul style="list-style-type: none"> One-time RMB1000M for self-building or acquiring office, and the subsidized areas shall be no more than 5000 m² 3-year rent subsidies in the amounts of: 30%, 20%, and 10% of annual rents respectively, and the subsidized areas shall be no more than 3000 m² 	<ul style="list-style-type: none"> Up to 5-year multiple-entry F visa or “Resident Permit” for legal representative, general manager, deputy general manager, financial controller, and other high-level managerial and technical staff who are non-PRC citizens Up to 3-year multiple-entry F visas or 4-year “Resident Permit” for department manager and other mid-level managerial and technical staff who are non-PRC citizens; up to 1-year multiple-entry F visas and up to 3-year “Resident Permit” for ordinary staff. The spouses and children under the age of 18 of the above persons could apply for the same “Resident Permit” Application priority for “Resident Permit” for high-level managerial staff Landing visas for visitors at Beijing Capital Airport Multiple-entry visas to Hong Kong and Macau for Chinese staff Application priority for “Mainland Citizen’s Taiwan Entry Permit” for Mainland staff “Foreign Citizen’s Working Permit” for expatriate staff 	<ul style="list-style-type: none"> RMB10M when annual revenue first reaches RMB1000M RMB5M when annual revenue first exceeds RMB500M (included) but less than RMB1000M RMB1M when annual revenue first exceeds RMB100M (included) but less than RMB500M Bonus will be paid in 3 annual installments of 40%, 30%, and 30%⁴ 	<ul style="list-style-type: none"> 3-year bonus in the amount of 80% of local retained portion of his or her individual income tax not exceeding RMB500,000 RMB500,000 bonus to one principal officer of RHQs ranked top 10 annual increase of local retained portion of corporate income tax Personal income tax for above bonuses are exempted Local residence registry for qualified non-Beijing talents
Shanghai	<ul style="list-style-type: none"> RMB5M for newly established RHQ that is an investment holding company Bonus will be paid in 3 annual installments of 40%, 30%, and 30% 	<ul style="list-style-type: none"> 3-year subsidies of 30% of rent (at the amount of RMB8/day/ m² for 1000 m²) for renting One-time bonus in the same amount of above total bonus for self-building or buying office 	<ul style="list-style-type: none"> 2- to 5-year multiple-entry visiting visa with a single stay period of less than one year for high-level managerial and technical expatriate staff; 1-year multiple-entry visiting visa for ordinary expatriate staff 5-year “Resident Permit” for legal representative, general manager, deputy general manager, and financial controller; 4-year “Resident Permit” for department managers; 3-year “Resident Permit” for ordinary expatriate staff Above policies also apply to RHQ managed companies registered in Shanghai with a registered capital of \$30M Priority for applying for “Permanent Resident Permit” for legal representative and other high-level managers Landing visas for people invited by RHQ at ports of enter in Shanghai; Multiple-entry visas to Hong Kong and Macau for Chinese staff Application priority for “Mainland Citizen’s Taiwan Entry Permit” for Mainland staff Application priority for oversea visas for Chinese staff with Shanghai registration “Working Permit” for expatriate staff with L, F, and X visas 	<ul style="list-style-type: none"> RMB10M when a national certified RHQ’s annual revenue first exceeds RMB1000M RMB5M when a management-type RHQ’s annual revenue first exceeds RMB500M Above bonuses will be paid in 3 annual installments of 40%, 30%, and 30% 	<ul style="list-style-type: none"> Local residence registry for qualified non-Shanghai talents Simplified procedure for custom clearance

2 Established or moved to Beijing after January 1, 2009.

3 One-time registered capital increase could enjoy the same benefit, with accumulated bonus of no more than RMB10M.

4 Accumulated bonuses should be no more than RMB10M.

Name of Cities	Bonus for Setting Up RHQ	Subsidy for Renting, Building, or Buying Office	Immigration Procedure	Annual Revenue Bonus	Others
Guangzhou	<ul style="list-style-type: none"> RMB5M for RHQ that is the only headquarters in China, RMB2M for RHQ which is headquarters for certain region of China 	<ul style="list-style-type: none"> 3-year subsidy in total amount of RMB1000/ m² for self-building and acquiring office 3-year subsidy in the amount of 30% of the market standard rent for renting Subsidies in the amount of 50% of the above standards for existing RHQ's new renting, and self-building or acquiring 	<ul style="list-style-type: none"> Half- to 1-year multiple-entry visiting visa for high-level expatriate managerial and technical staff 1- to 5-year "Resident Permit" for expatriate staff Landing visa for temporary visiting staff 		<ul style="list-style-type: none"> Local income tax exemption upon governmental approval 3-year property tax exemption; business tax exemption for technology consulting and service income
Shenzhen	<ul style="list-style-type: none"> Up to RMB20M bonus for integrated RHQ, up to RMB5M for functional RHQ 	<ul style="list-style-type: none"> 5-year subsidy in total amount of RMB1000/ m² for self-building and acquiring, up to RMB10M for integrated RHQ, RMB5M for functional RHQ One-time bonus of 30% of 12 month's rent for self-use renting, up to RMB2M for integrated RHQ, RMB1M for functional RHQ 	<ul style="list-style-type: none"> Application priority for visas for overseas trip 1-year "Resident Permit" for normal managerial staff 1- to 5-year "Resident Permit" for high-level managers 	<ul style="list-style-type: none"> 5-year bonus equal to 30% of annual increase of local retained portion of taxes paid by RHQ One-time bonus for increase of registered capital of RMB100M or more, equal to 50% of the increment of the local retained tax This bonus in excess of above bonus is limited to RMB20M for increased registered capital of RMB200M or more and RMB5M for increased registered capital between RMB100M and RMB200M 	<ul style="list-style-type: none"> Urban planning and land supply incentives

LAWYER CONTACTS

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