
Costs of setting up an office in Shanghai

contents

office rentals	4
serviced offices	4
telecommunications and internet costs	5
recruitment and staff costs	6
other costs	7

Note: Information in this report is designed to give readers preliminary information on setting up offices in Shanghai, and is for reference purposes only. New Zealand Trade and Enterprise recommends that companies seek professional advice from legal, financial and consulting professionals that have expertise in the China market.

This document is one of a series of free information tools for exporters produced by New Zealand Trade and Enterprise. New Zealand Trade and Enterprise provides a wide range of standard services and sophisticated solutions that assist businesses through every stage of the export process.

For information or advice, ring the Enterprise Hotline on 0800 555 888, visit www.nzte.govt.nz, or contact your New Zealand Trade and Enterprise Client Manager.

business registration

In broad terms, businesses can set up in China as a representative office, a wholly foreign owned enterprise or a joint venture.

Representative Offices

A representative office can carry out market research and project investigation for the parent company, however no trading or invoicing is allowed. As representative offices are not legal entities, no minimum share capital is required.

It takes approximately one month to apply for registration. Application is made to the Foreign Economic Relations and Trade Commission and the Administrative Council of Industry and Commerce. Typically this registration is done with the assistance of specialist consultants.

The documents required include:

- Certificate of Incorporation
- Members' Register
- Directors' Register
- Last filed return to Company Registry
- Last filed return to Tax Department
- Company / business profile and reason of setting up RO
- Minutes of Board Meeting to setup RO
- Minutes of Board Meeting to authorise Chief Representative
- Bank reference letter.

Representative offices must usually be located in Grade A buildings, and staff have to be recruited through Government recognised agencies, such as the Foreign Enterprise Service Company (FESCO).

Representative Offices are subject to both Business Tax and Foreign Enterprise Business Tax, which amounts to approximately 9-10% liability of the total declared expenses of the representative office.

Shanghai has recently developed more procedures that may affect the lease agreement for representative office applications:¹

A new requirement has taken effective recently that requires all RO applications to include the regional lease record certificate, which has to be obtained from the real estate authority. A notarised copy is required. An original copy of this also needs to be provided to the local Shanghai Tax Bureau and also the Administration of Industry & Commerce.

In addition, all applications for all business licences must go via government agents, in Shanghai.

Depending on the role to be performed by the office, many enterprises establishing a base in China are going directly to the step of forming a WFOE.

¹ www.china-briefing.com

Wholly Foreign Owned Enterprise (WFOE)

A wholly foreign-owned enterprise is established entirely with foreign capital, under total foreign control and without any Chinese ownership or participation. WFOEs are currently the most popular form of foreign investment in China due to the support for this type of format from the Chinese government. The advantages associated with setting up a WFOE are that the foreign entity can reserve full control of management and sensitive business information, that it may hire local employees directly and receive RMB within China and that it does not require large amounts of registered capital.

The minimum investment is US\$ 140,000 (20% in advance and the remaining 80% should be ready within 2 years). The required registered capital can be drawn down against operating costs.

It is now permissible to set up pure trading WFOE's and buy and sell on the domestic market. It is also possible to set up as WFOE's in most — but not all — service sectors, including consulting, architecture, and design.

The following documents typically need to be submitted to the local Approval Authority:²

- name and address of WFOE
- written application for the establishment of the WFOE
- feasibility study report
- the Articles of Association of the proposed WFOE
- list of the proposed chairperson and the members of the WFOE board of directors, and appointment letters
- the incorporation document of the WFOE investor
- a credit certificate of the WFOE investor issued within 3 months
- lease agreement for the premises
- plant required and technology to be imported, impact on environment, raw material requirements
- reply of pre-registration of name approved by the relevant SAIC; and
- other documents as may be required by the approval authority.

Approval Authorities are generally required to make a decision within 90 days from receipt of all the documentation. However, it is understood that in some cases local authorities able to give their decision within 5 to 15 working days upon receiving all the required documentation.

Joint Ventures

A joint venture is a business arrangement or partnership between foreign and Chinese investors, and involves the sharing of expenses, resources, profits and losses. Chinese law stipulates that the foreign partner contribute no less than 25% of the capital.

Foreign investors may set up two different kinds of JVs in China: an Equity Joint Venture (EJV) or a Contractual Joint Venture (CJV). In an EJV arrangement, the two partners share the profits, management responsibilities and risks according to the percentage of the capital investment each side has made. In a CJV arrangement the amount of risk and profit shared by each party is

² www.cbbc.org/market_intelligence/presense/wfoe.html

not determined by capital investment but rather according to a ratio agreed to at the beginning of the partnership and stipulated in the contract signed by the investors.³

The risks associated with setting up joint ventures can be attributed to the disparities of culture and business practices between the foreign and local parties.

office rentals

Since 1990, the commercial and residential landscape of Shanghai has been in a constant state of transformation. Blocks of older dwellings have been levelled and replaced with modern business towers and residential buildings, and extensive spending has created a good road network.

In the first quarter of 2006, Shanghai's prime office market witnessed continued appreciation in rental levels. Grade A office rentals increased by 2.9% to US\$37.6 psm per month.⁴

Currently, there is pressure on good office space in Shanghai, as many foreign and domestic companies continue to move into the city or upgrade from existing office space. The vacancy rate of commercial building stands at around 5%.

Major office areas are:

- Central Huaihai Road
- Nanjing Road West
- Xujiahui
- Hongqiao
- People's Square
- Lujiazui.

A number of the recently constructed or soon to be constructed prime office buildings in Shanghai are listed on the websites of major real estate consulting firms. One high profile example is the World Financial Centre which is currently under construction in the Lujiazui District of Pudong. This building will be one of the tallest in the world, with close to 100 floors.

serviced offices⁵

Start-up businesses or those with a limited budget have the option of setting up serviced offices. Serviced offices provide an array of business services, including bilingual secretarial support, handling of mail, fax and telephone calls, courier services, transportation and hotel arrangements.

This one-stop approach to setting up an office allows many companies that are new to China to focus on core business activities by bypassing the technical difficulties of finding an office and hiring staff.

³ China Business Guide 2005, Graham Earnshaw, P156

⁴ www.cbre.com.cn/upload/contentUpd/eng/research/marketreports/marketviewprcq1eng.pdf

⁵ 'China Business Guide 2005', P163-164

Serviced offices operators in Shanghai include:

Executive Centre
www.executivecentre.com

Servcorp Shanghai
www.servcorp.net

Regus: Corporate Avenue
www.regus.com

Regus: Jinmao Tower
www.regus.com

Plaza Business Centre at the Kerry Centre
www.kerryprops.com

CEO Suite
www.ceosuite.com

Ortus Premier Serviced Offices
www.ortus.biz

Office General
www.officegeneral.com

telecommunications and internet costs

China began cellphone service in the late 1980s and it has experienced extreme growth in the sector since then. Both GSM and CDMA networks are used.

As a result of rapid development, the cost of using cellphones has dropped significantly. Average handsets cost between RMB 1,500 - 4,500 (US\$188 - 542). Handsets are available at a large number of commercial outlets and can be activated right away. Pre-paid plans are available too. Most international brands of handsets are available, and there is a good selection of domestic brands as well.

The local telephone service in China requires a customer to submit an application at a local operator's office. According to the latest service standards published by all national operators (China Telecom, Netcom, Railcom), setting up a basic service account in China usually takes between 10 and 40 days.

The cost of a basic service consists of two elements: monthly flat fee and charges for actual usage. Monthly fees vary, but are normally between RMB 30~35 (US\$3.60-US\$4.20) a month. This usually includes a basic monthly fee, local government charge (similar to local tax), maintenance charge, and number listing charge.⁶

China has a range of service providers for internet access, including China Telecom, NetCom, UniCom and national ISPs such as ChinaNet. The latter is estimated to host more than 70% of all websites in China.

High speed internet access is growing fast, including ISDN, ADSL, LAN-based broadband access, cable modem, cell phone, etc.

Broadband connection costs:

- Installation fee: RMB 500 (US \$62.5).
- Monthly charge: RMB 600 (US \$75) for 192K; RMB 1000 (US \$125) for 384 K and RMB 1850 (US \$231) for 640K.

recruitment and staff costs

Representative offices are required to fill their staffing needs through government affiliated agencies such as FESCO and CIIC. These companies are basically happy to sign up any staff that companies propose, or to act as recruitment agencies. FESCO and CIIC are a convenient way of handling staff, in that they handle all staff tax and welfare issues for a company.

If a foreign company is setting up a WFOE then they are able to employ staff directly.

There are a number of recruitment and head hunting agencies in Shanghai. These companies can be useful in finding staff, especially for key local management and marketing positions. The Internet is also a widely used tool for recruitment and several internet sites are dedicated to advertising positions.

Word of mouth still remains one of the main methods for locating and recruiting staff.

Recruitment Agencies⁷

Below are some recruitment agencies and executive search firms. Service offerings and fees should be compared across these companies.

Shanghai Foreign Service (FESCO)

www.efesco.com

CIIC

www.ciicsh.com

Shanghai Human Resources Service Centre

www.shrc.com.cn

www.zhaopin.com

Boyden Global Executive Search

www.boyden.com.cn

Manpower Business Consulting

www.manpower.com

Strategic Executive Search

www.sesesia.com

Staff Service

www.staffservice.com

Staff Costs⁸

In Shanghai's labour market, salaries vary according to industry, company and location. Remuneration packages include a monthly salary, annual or bi-annual bonuses, overtime payments and employer and employee contributions to mandatory taxation and social welfare.

During July 05 to June 06, Shanghai's minimum wage is RMB 690. The average monthly salary is RMB 800-1200 for manual worker, 2000-4000 for skilled production worker and RMB 10,000

⁶ www.chinanex.com/service/basic.htm

⁷ 'China Business Guide 2005', P160

⁸ 'China Briefing-Business Guide to Shanghai and the Yangtze River Delta, 2006-2007'

upwards for people in line management positions. People in positions in senior management positions will command salaries comparable or in excess of those paid in New Zealand.

other costs

Unit cost of utilities in Shanghai

Water	RMB 3.42/T (US \$0.43/T)
Electricity	RMB 0.8 to 1.0 per kw-h for Grade A buildings, varying by property management companies.
Gas	RMB 2.05 (US \$0.25) per cubic metre

Cost of telephones and mobiles in Shanghai

	Residence	Office
Local telephone	RMB0.20 (USD0.025)/minute for the first 3 minutes; RMB 0.10 (US \$ 0.0125)/minute, 3 minutes onwards. Monthly charge is RMB 25 (US \$3.125).	RMB0.22 (US \$0.027 /minute for the first 3 minutes; RMB0.11 (US \$ 0.137)/minute, 3 minutes onwards; Monthly charge RMB 35 (US \$4.37).
Domestic long distance call	0.7 RMB (US\$0.08) per minute 0.3 RMB (US\$0.04) per minute if using a IP calling card	Same as residence
International long distance call	8 RMB (US\$0.96) per minute 3.6 RMB (US\$0.43) per minute if using a IP calling card	Same as residence
Mobile	0.4 RMB (US\$0.04) per minute for local call and 1 RMB (US\$0.12) per minute for long distance. Mobile calls in China are charged on both incoming and outward calls.	/

Vehicle prices

It's common to lease a car and driver from specialist agencies, although ownership is another option.

The following is a range of models and their prices. When looking for vehicles in China, the sorts of issues to be taken into consideration are family, company requirements, image, servicing options, cost, and safety.

	Type	Car price (USD)	Monthly leasing fee (USD)	Local Purchase Tax (USD)
Toyota Crown	2.5 AT/MT	37,325	1875	3187
Nissan Teana	2.3 AT JK	25,750	1810	2412
Audi A6	Locally produced (L2.0T/FSI/MT)	46,450	1875	3962
Audi A6	Imported (L3.0 CVT)	110,375	3310	7300

The cost of petrol is around RMB 4.92-5.50 (US\$0.62-0.69) per litre. The registration fee for license plate is around RMB 40000 (US \$5000), varying monthly by auction price. Monthly car maintenance expense is around RMB 1000 (US \$125). Car insurance costs are upwards of RMB 2000 (US \$250) for third party, theft and fire cover. Many of these ownership and running costs will be included in lease plans.

Disclaimer:

While New Zealand Trade and Enterprise has verified the information in document, we make no representation as to the completeness, correctness, currency, accuracy or fitness for any purpose of the information. New Zealand Trade and Enterprise will not be responsible for any damage or loss suffered by any person arising from the information contained in this document, whether that damage or loss arises from negligence or otherwise.