

## minimum registered capital for foreign invested trading companies

### Description

Registered capital is probably a very special and elusive term for foreign investors esp those from the West where such a concept does not exist in their company laws. The registered capital in China Company Law refers to an amount of fund/money required by law to be paid in place by shareholders of the company within a period up to two years. Currently, for a domestic company, the minimum registered capital is RMB 30,000.

However for foreign invested trading companies, there has been confusion as to how much registered capital such a trading company needs in practice. Some say foreign invested trading company can have a minimum registered capital of RMB 30,000, and some say RMB 200,000, and also some say RMB 500,000. So which is right?

A foreign invested trading company refers to the foreign invested companies engaged in the commerce field that are regulated under Administrative Measures on Foreign Investment in Commerce Field (the "Measures"), effective as from June 1, 2004. Setup of foreign invested trading company is governed by the Measures.

According to Article 7 of the Measures, the minimum registered capital for a foreign invested trading company shall be in compliance with the relevant provisions in China Company Law. The company law effective at the time of enactment of the Measures is the old company law. In the old company law, a company engaged in wholesale business shall have a minimum registered capital of RMB 500,000, and a company engaged in retail business shall have a minimum registered capital of RMB 300,000.

A trading company selling goods to non-consumer customers is regarded as a wholesale business. Therefore, a foreign invested trading company doing wholesale business shall have a minimum registered capital of RMB 500,000.

Confusion arises after new company law came into effect in 2006. In the new company law, registered capital is substantially reduced to allow more people to do business under the protection of limited liability company. Upon effectiveness of new company law, the old company law was repealed. Legally speaking, the reference to company in the Measures shall be construed to refer to the new company law. However, in practice, government officials still apply the old company law because it required a much higher investment. In Shanghai, in most cases, registered capital of foreign invested trading companies are well above RMB 500,000.

Given the situation, we always advise clients to put a nicer amount of registered capital above RMB 500,000 in order to secure a smooth approval. Probably in some other places outside Shanghai, local governments may accept a lower registered capital below RMB 500,000 (more than RMB 200,000) for trading companies. Again, to ensure a clear idea, good communication with right person at right department is necessary.



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