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Cayman Companies in Cross-Border Investment Structure

In the contexts of cross-border investment, offshore financing, group holding structures, and private fund architectures, a Cayman Islands company constitutes a relatively common type of offshore entity. The research and development, production, and substantive business operations of many enterprises are not conducted in the Cayman Islands; nevertheless, their group holding companies, financing vehicles, or investment funds may nonetheless elect to be established there.

Accordingly, a question of some frequency arises: if an enterprise does not intend to conduct its principal business locally in Cayman, why is it still necessary to establish a company there?

On the surface, the Cayman Islands does not impose corporate income tax or capital gains tax on exempted companies, and the tax regime is indeed one of the significant factors influencing an enterprise's choice of Cayman. In actual cross-border structures, however, the value of a Cayman company derives not solely from taxation, but is reflected to a greater extent in its corporate regime suited to offshore business, its flexible equity arrangements, and its mature international investment and fund system.

This article seeks to provide a brief introduction, from the following aspects, to why enterprises choose to establish companies in the Cayman Islands.

1. Analysis of the Cayman Islands Exempted Company Regime

    One of the most common types of Cayman companies employed in cross-border investment structures is the exempted company. Pursuant to Sections 136 and 165 of the Cayman Islands Companies Act (2026 Revision), a company whose purpose is to carry on business principally outside the Cayman Islands may apply for registration as an exempted company, and upon registration confirms that its business is carried on principally outside the Cayman Islands.

    Concurrently, Section 174 of the Companies Act provides that an exempted company shall, in principle, not carry on business within the Cayman Islands with the local public, though it may enter into contracts in Cayman and undertake acts necessary for the conduct of business outside Cayman.

    Accordingly, a Cayman exempted company is not, by its nature, intended primarily for the conduct of substantive operations locally in Cayman. In practice, it typically serves as a group holding, equity financing, or investment holding vehicle, while research and development, sales, employment, and other business activities are undertaken by subsidiaries in various countries and regions.

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In other words, where an enterprise establishes a Cayman company, it is in many cases not for the purpose of "entering the Cayman market," but rather for the purpose of establishing an offshore holding and investment platform situated above the actual operating entities.

2. Tax Neutrality Reduces Additional Tax Costs within Cross-Border Structures

Cayman Islands exempted companies currently do not impose direct taxes such as corporate income tax or capital gains tax. Accordingly, where a Cayman company principally performs holding or investment functions, the dividends, investment income, or equity disposal gains it receives will generally not give rise to additional Cayman corporate income tax merely by reason of the existence of this Cayman layer.

In addition to the prevailing tax regime, pursuant to Section 6 of the Cayman Islands Tax Concessions Act (2018 Revision), an exempted company may also apply for a tax concession. During the validity period of such concession, should Cayman enact legislation in the future imposing taxes on profits, income, gains, or capital appreciation, the relevant legislation may, in accordance with the terms of the concession, be rendered inapplicable to the company, with the concession period extending to a maximum of 30 years. Accordingly, the tax advantage of a Cayman company is more accurately characterized as tax neutrality: the endeavor to avoid additional tax burdens within a cross-border investment structure arising from the interposition of a holding entity layer.

It should be noted, however, that the fact that a Cayman company itself does not pay corporate income tax does not signify that the entire investment structure bears no tax burden. Shareholders, investors, and the jurisdictions in which the actual operating companies are situated may still impose taxes under local tax legislation on dividends, capital gains, controlled foreign corporation income, or other income. Judgment must therefore still be made in light of the entire cross-border structure.

3. A Flexible Equity Regime Suited to Offshore Financing and Investment Arrangements

For enterprises contemplating multiple rounds of offshore financing, a further significant value of a Cayman company lies in the considerable latitude its company law affords for arranging different classes of shares and shareholder rights.

Pursuant to Section 22 of the Companies Act and Schedule 1 thereto, a company may provide in its articles of association for different classes of shares and may make differing arrangements in respect of dividends, voting rights, return of capital, and other special rights. Section 37 of the Companies Act permits a company, where its articles so allow, to issue redeemable shares and to repurchase shares in accordance with law.

This enables an enterprise, in accordance with the commercial arrangements of investors in different rounds, to provide in its articles of association and investment documents for ordinary shares and different classes of preferred shares, and further to arrange the voting rights, dividend rights, liquidation preference, redemption rights, and other shareholder rights of different investors.

For an ordinary operating company with only a small number of shareholders, such institutional flexibility may not be readily apparent. Nevertheless, as an enterprise continues to conduct offshore financing and the number of investors and the complexity of shareholder rights arrangements increase, the institutional advantages of a Cayman company become increasingly pronounced. Accordingly, many enterprises choose Cayman not because the company is required to operate in Cayman, but because they require an upper-tier entity capable of accommodating complex equity relationships and offshore financing arrangements.

4. A Mature International System Is a Significant Reason for Cayman's Widespread Adoption

Following a prolonged period of development, the Cayman Islands has established a relatively mature international investment and fund services system. In addition to serving as group holding companies, Cayman companies are also extensively employed in private equity investment, venture capital, and other fund structures.

Pursuant to Section 2 of the Cayman Islands Private Funds Act (2025 Revision), a private fund may be established in the form of a company, a unit trust, or a partnership. A company is therefore itself one of the fund organizational forms expressly recognized under Cayman law.

Such maturity is reflected not only in the legal regime itself, but also in market practices formed over an extended period. International investors, lawyers, accountants, fund managers, and other professional institutions are already relatively familiar with the articles of association, investment agreements, fund documents, and shareholder rights arrangements of Cayman companies. Consequently, in transactions involving investors from multiple countries and regions, the adoption of a Cayman entity often serves to reduce the coordination costs among different legal systems.

A Cayman company does not, however, signify an absence of regulation. At present, Cayman has established economic substance and beneficial ownership regulatory regimes. Pursuant to the International Tax Cooperation (Economic Substance) Act, entities engaging in specified relevant activities are required to fulfill corresponding economic substance obligations in accordance with the nature of their business, and pursuant to the Beneficial Ownership Transparency Act, relevant companies are further required to identify and maintain their beneficial ownership information. Accordingly, the core of utilizing a Cayman company today is no longer so-called "anonymity" or "concealment," but rather, on the foundation of transparency and compliance regulation, the utilization of its mature corporate regime and international investment system for cross-border financing, holding, and investment arrangements.

In overall terms, the significance of establishing a Cayman exempted company lies not merely in the absence of corporate income tax in Cayman, but in the capacity of its corporate regime to accommodate differing arrangements such as cross-border holding, equity financing, and investment funds. For enterprises with requirements for offshore financing or multi-tier equity structures, a Cayman company principally performs the function of holding and capital arrangement at the upper level of the group. Whether a Cayman company ought to be established should therefore still be determined comprehensively in light of the enterprise's actual equity structure, financing plans, and cross-border investment arrangements.

For many years, Kaizen has continuously provided clients with Cayman company incorporation and related corporate services, and has assisted numerous clients in completing the registration of Cayman companies, the construction of equity structures, and subsequent compliance maintenance. It possesses relatively extensive practical experience in the incorporation procedures and ongoing compliance requirements of Cayman companies.

Should you contemplate utilizing a Cayman company for offshore holding, financing, or investment arrangements, Kaizen is able to provide corresponding incorporation and subsequent support tailored to your specific requirements.

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