ESTABLISHMENT FORMS IN CHINA

MARKET INFORMATION

December 2017
Business Sweden, China
# THE FORM OF LEGAL ENTITY DEFINES THE TYPE OF BUSINESS YOU CAN CONDUCT IN CHINA

<table>
<thead>
<tr>
<th>LEGAL ENTITY</th>
<th>BUSINESS-ACTIVITIES</th>
<th>LIMITATIONS</th>
<th>REMARK</th>
</tr>
</thead>
<tbody>
<tr>
<td>RO</td>
<td>Marketing &amp; Promotion</td>
<td>No business transactions</td>
<td>No registered capital needed</td>
</tr>
</tbody>
</table>

| WOFE          | Wholly Owned Foreign Enterprise | Limited by the business scope defined in the business license | Demand for capital tied to the company Fairly big investment |

| JV* Joint Venture | Based on JV agreement with local Chinese partner | Only option for government regulated business area | Less control and higher risk for the western company |

A LEGAL ENTITY CAN ONLY OPERATE WITHIN THE SCOPE APPROVED BY THE AUTHORITIES, MAKE SURE IT FITS YOUR BUSINESS PLAN
# LEGAL ESTABLISHMENT ALTERNATIVES, PROS AND CONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Representative Office</th>
<th>Wholly Owned Foreign Enterprise</th>
<th>Joint Venture</th>
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</thead>
<tbody>
<tr>
<td>RO</td>
<td>No legal person</td>
<td>Limited liability legal person</td>
<td>Limited liability legal person</td>
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<tr>
<td>WOFE</td>
<td></td>
<td></td>
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<tr>
<td>JV</td>
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## Common purpose

**Pros**
- Liaison and representation
- Planning long-term business ventures
- Most manufacturing business, some service businesses
- (Note: Trading is allowed for a manufacturing WOFE but their main business should be manufacturing)

**Cons**
- Cannot invoice locally in RMB
- Must recruit staff through local agency, e.g. FESCO

## Purpose
- Purpose depends on Chinese JV partner
- Most common in industries that are “restricted” hence requires a JV partnership, e.g. Telecom and Automobile manufacturing

## Pro's and Cons
- Inexpensive to set up and does not require committed investment
- The setup procedure is relatively straightforward
- Allows exploration of the market and liaison activity
- 100% ownership and control
- Local invoice allowed
- Broader business scope compared to FICE
- Allowed to convert RMB into foreign currency for profit repatriation
- Possibility to access an already developed network of distributors and local partners
- Allowed in restricted industries
- Sharing of operational costs

## Cons
- Foreign investor’s capital must account for at least 25% of the registered capital
- Share of revenue, risk and IP
THE FORM OF LEGAL ENTITY IS ALSO A DETERMINING FACTOR FOR YOUR EMPLOYMENT OPTIONS

- **WOFE**
- **JV**

**Representative Office** → **FESCO* (Service Provider)** → **Direct hire**

**No Legal Entity in China** → **Business Sweden** → **Hire through HR service providers** → **Hire through Business Sweden or other provider**

CHINA HAS STRICT HR REGULATIONS AND EMPLOYMENT FORM SHOULD BE CONSIDERED CAREFULLY

*FESCO IS A LABOR DISPATCH AGENCY, IF YOU HAVE A REPRESENTATIVE OFFICE (RO) IN CHINA, YOU MUST HIRE YOUR STAFF THROUGH SUCH AN AGENCY*
FINANCE REGULATION STATES THAT A LEGAL ENTITY IN CHINA REQUIRES A FINANCE TEAM IN CHINA

Minimum two accountants to handle bookkeeping and reporting (In-house or Outsourced)

Business Sweden can provide the finance services for you regardless your type of legal entity, thus exempting you from establishing your own finance team.
DEFINING THE BUSINESS SCOPE IS SIGNIFICANT AS THIS DETERMINES ENTITY AND EMPLOYEE FORM

**CHALLENGES**

- Several types of entities to choose from depending on the type of business you plan to do in China, including FTZ
- It’s hard and tedious to change approved business scope so get it right the first time!

- Employment possibilities depend on legal entity
- For some legal entities you are obligated to use labor dispatch agencies
- Employer must show proof to dismiss employee

- Setting up a Finance team can be costly
- Government regulations can be complicated
- Many finance systems are not compatible with China’s bookkeeping structure

**CONSIDERATIONS**

- Carefully define the business scope of the legal entity
- Understand the regulations regarding total investment and registered capital
- Ensure that the chosen address is approved to hold the chosen company form

- Understand what the options are for your chosen legal entity
- Use fixed term contracts (maximum 2 terms)
- If small scale, using a third party is a good option

- Two persons minimum to handle accounting according to Chinese law (bookkeeper and cashier)
- Local accounting system Kingdee is mandatory according to the regulations of the Chinese Accounting Standards (CAS)

CONSIDER USING A PROFESSIONAL FIRM TO SUPPORT YOU IN ESTABLISHING YOUR COMPANY
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