

# INVESTMENT TYPES IN THE CHINESE MARKET

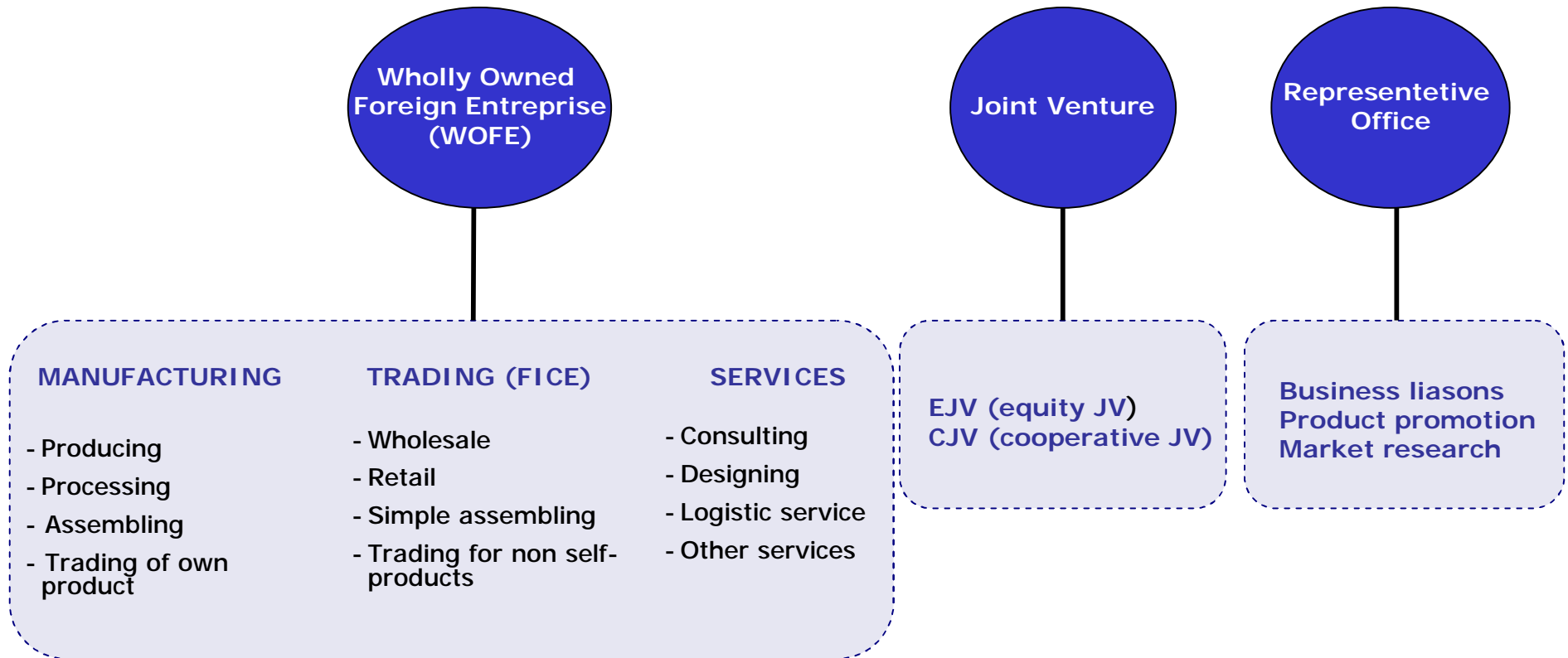


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JESA Investment & Management Co. Ltd.

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## How to enter the Chinese Market



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## How to invest – WOFE (1)

### LEGAL ENTITY DEFINITION

- W.O.F.E. (Wholly Foreign Invested Enterprise) is limited liability company established under the Chinese Law.
- The shareholder are 100% foreign.
- Limited liability is recognized by the amount of registered capital (cash + equipment injected are the extent of the WOFE's liability)
- In the event of bankruptcy, the parent company would be expected to inject enough capital to solve the debts.

### TYPES OF W.O.F.E. AND BUSINESS SCOPE

WOFE Manufacturing



It is allowed to produce and sell in China and abroad the products that are manufactured in the plant. It is not allowed any trading activities of related finished parts.

WOFE Trading (FICE)



It is allowed to do trading, wholesale, retail and franchise. It is allowed to have a warehouse and it is possible to make some small assembling<sup>(1)</sup> activities on the products. It is allowed to buy in China and sell in China, buy abroad and sell in China, buy abroad and sell abroad.

WOFE services



Servizi di consulenza e altre categorie di servizi ai clienti consentite dalla legge cinese.

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**Note:**

(1) The assembling activities allowed by the law should be not substantial and basically the HS code of the product should remain the same. The approval of such an activities is under the responsibility of the local government.

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## How to invest – WOFE (2)

### REGISTERED CAPITAL

#### INJECTION:

- within 90 days after the Business License is issued 20% of Capital must be remitted
- Within 24 months registered capital must be remitted totally

#### Amount (According to the Chinese Law):

The registered capital and the Total investment is based on the evaluation of the investment and the definition of the Business Plan of the Investment.

The Company Law impose certain minimum registered capital requirements on foreign enterprises based on the amount of total Investment. The ratio are as follow:

TOTAL INVESTMENT	MINIMUM REGISTERED CAPITAL
<= 3 MILLION US\$	AT LEAST 70% OF TOTAL INVESTMENT
BETWEEN 3 MILLION US\$ AND 10 MILLION US\$	AT LEAST 50% OF TOTAL INVESTMENT BUT NOT LESS THAN 2.1 MILLION US\$
BETWEEN 10 MILLION US\$ AND 30 MILLION US\$	AT LEAST 40% OF TOTAL INVESTMENT BUT NOT LESS THAN 5 MILLION US\$
> 30 MILLION US\$	AT LEAST 1/3 OF TOTAL INVESTMENT BUT NOT LESS THAN 12 MILLION US\$

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## How to invest – WOFE (3)

### TIMING FOR THE REGISTRATION<sup>(2)</sup>

WOFE Manufacturing	→	To get the Business License it takes from <b>3 to 6 months</b> . Timing to get the approval and the Business License can vary in different areas, in different sectors and the environmental impact evaluation carried out by the local authorities.
WOFE Trading (FICE)	→	To get the Business License it usually takes from <b>2 to 3 months</b> .
WOFE Service	→	To get the Business License it usually takes from <b>2 to 3 months</b> .

### TAX RATE

Normal tax rate is 25%

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**Note:**

(2) The time mentioned doesn't include the preparation of the documents by the Client and the efficiency of the local authorities. Timing refers only to the expected time of issue of the Business License by the local government and does not include the post incorporation registrations



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## How to invest – Representative Office (1)

### LEGAL ENTITY DEFINITION

The Representative Office (RO), according to the Chinese law, is not considered as a legal entity.

It is not allowed hire personnel directly.

RO can not sign any contract with suppliers or client (except for the office leasing contract) and it cannot issue invoice. Thus it is only a cost center that has no revenues.

### BUSINESS SCOPE

Representative Office is allowed to do market research for the Mother Company, keep contact with potential customer and develop the market penetration.

### CONTRIBUTION

It is based on the Business Budget of the structure.

Representative Office is allowed to receive foreign currency to operational account from the Mother Company and the law doesn't impose restriction on the amount of contribution.

Every year, the taxation is based on the expenses. Tax rate is about 10%

### TIMING FOR REGISTRATION

Usually it takes 2 months.

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## How to invest – Representative Office (2)

### IMPORTANT NOTE

The Representative Office can not be modified in any other kind of legal entity, such as the trading company.

In fact if the Investor wants to change the scope of the investment it is necessary to establish a new company and close the Rep Office.

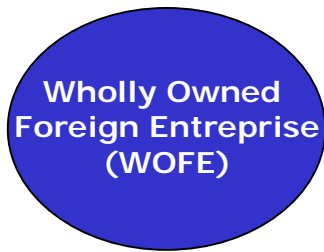
Since it is a particular form of investment, the legal procedure that allows to close the Rep Office can take some months since it is necessary to prove the fulfillment of the tax procedures and costs accounting.

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## Comparison among different types of investment

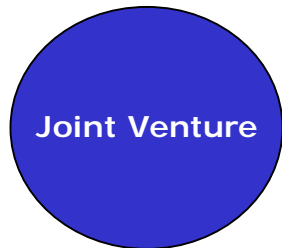
### Pros

### Cons



- Direct entry in the market
- Allow serving the market in different ways
- Higher level of control on the activities\*
- Complete structure able to support the Mother company

- Higher investment
- More requirement by law must be accomplished
- Operative and administrative costs relatively higher



- Fastest entry way\*\*
- Allow exploiting the synergies among the partners

- Risk of dispute with the local partner
- Risk of losing the control of the activities and counterfeit
- Statistically many JV fail



- Lower investment (it is not required the registered capital)
- Lower set up costs
- Easier management

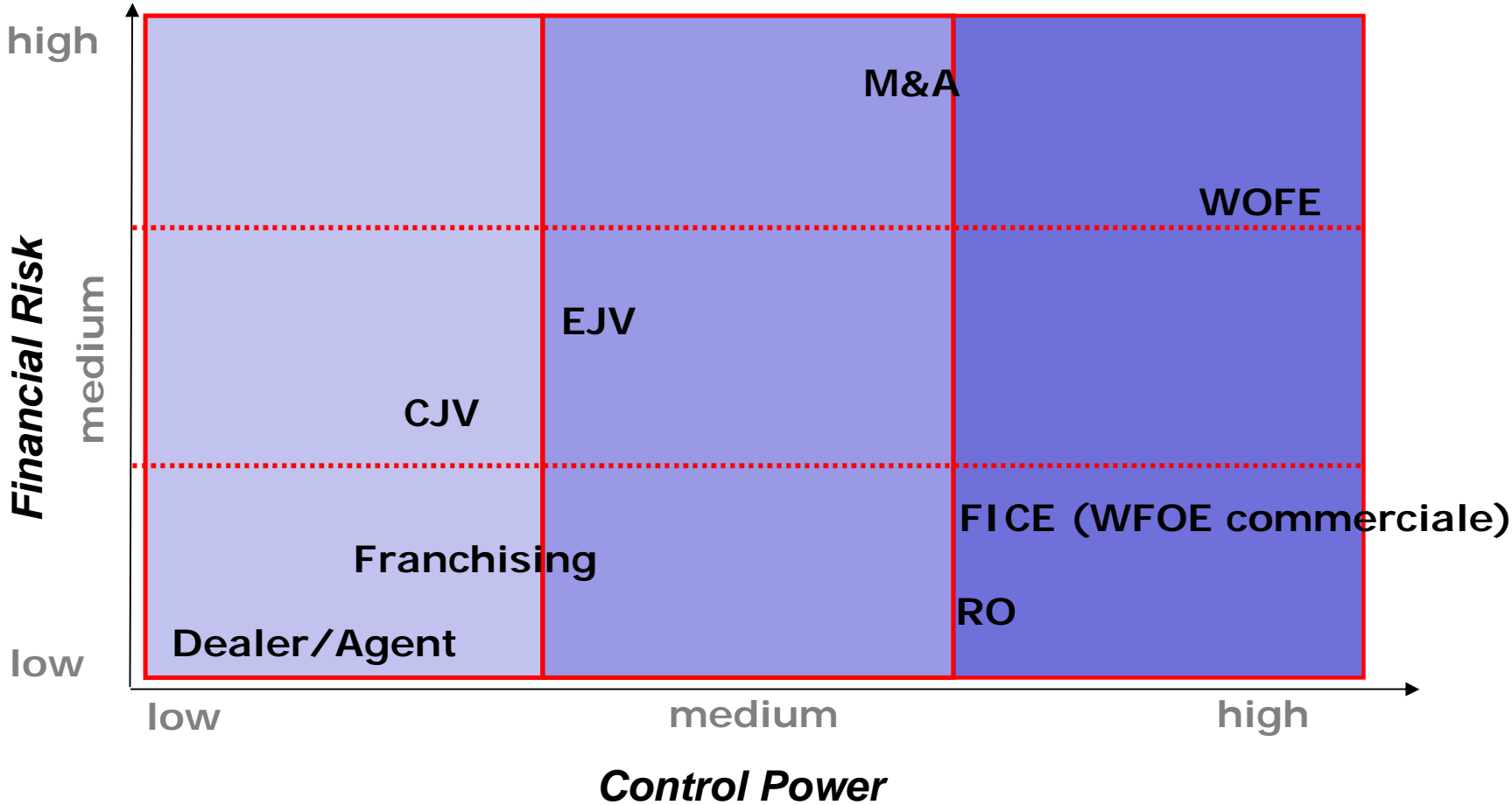
- It cannot be involved in direct activities
- It can not issue invoices
- Taxes are calculated on the basis of the expenses

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\* It depends also by other factors such as the HR structure.

\*\* Professional research, such as Due Diligence, are essential to identify the most suitable entry strategy.

A useful matrix



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# Jesa Investment and Management Co., Ltd

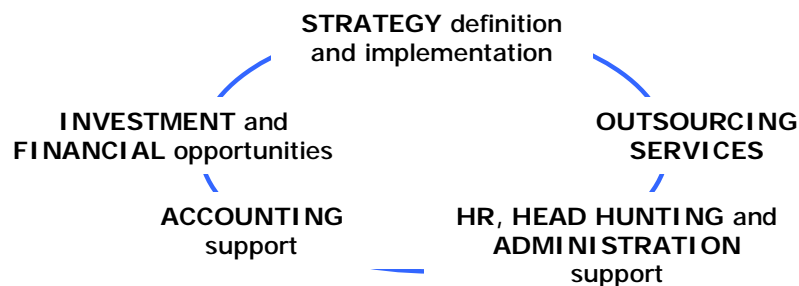
## BACKGROUND, EXPERIENCES and NETWORK

Since 1998, we have helped 600 foreign companies to understand, enter, operate, grow and/or invest in China. We took part in more than 400 projects. These collaborations have resulted in € 500 millions of Foreign Direct Investment (FDI) into China.

During the years, JESA has also built an extensive and reliable network - crucial when doing business in China.

## SERVICES INTEGRATED PORTFOLIO

JESA offers to the clients integrated services thanks to synergies it has developed among its different units.



## CUSTOMER ORIENTATION

JESA helps clients that are interested in evaluating, establishing or increasing their activity in China. JESA's main focus lies on matching our clients needs with market evolutions, whilst creating long-term value.

## TEAM

Our people are the true strength of our company. The high professionalism and the International/Chinese blended capability is represented in our 70 persons as well as in our management. A large number of JESA's engineers and managers are spread across different cities in China, in order to follow projects on site.

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