

# Eurbridge Business Center

Supporting startups and SMU  
since 2011



EURBRIDGE  
*Your Bridge to China*

# Who are we ?

Eurbridge was founded in 2007, and to this day operates with the same management.

In Febr 2011, our business center was accredited by F.I.T.

Eurbridge aims for a pragmatic & personal approach with active support & advice.

We support starters throughout their journey according to their needs:

Fixed workplace, Shared network, Added services (accounting, payroll, HR, ), Secretarial and administrative support, monitoring of personnel ...



*Jan Van der Borcht*



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# Entering China

Entering China tends to be a lengthy process.

- Different Business culture
- Different social dynamics

## Motivation:

- **Sourcing, merchandising, Quality control**
- **Production & services**
- **Marketing & sales**
- **Representative office**
- **Sales & product support**

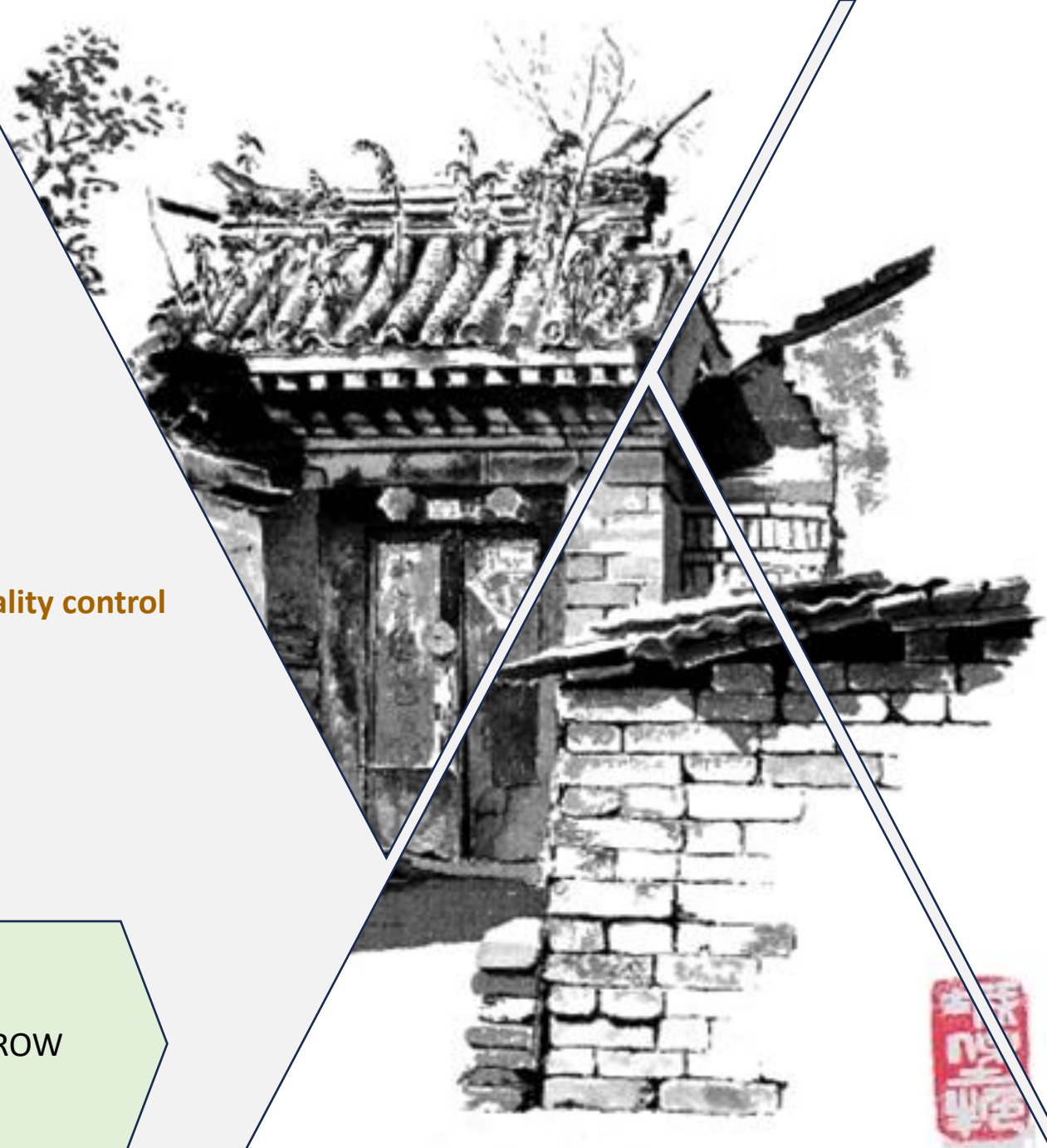


EXPLORE

ENGAGE

INTERACT

GROW



# Traditional Approach

- 1 Find office space
- 2 Set up a legal entity
- 3 Open bank accounts
- 4 Hire personnel
- 5 Get partners, client, suppliers,...



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# 1 Office Space

- Office space in main cities tends to be rather expensive.

(100 sqm = 3.000 – 4.000 Euro/month)

- Office often offered casco.

You need to:

- Install inner walls
  - Cabling
  - Painting / logo wall
  - Phone and data connections, internet
  - Furniture
- 3 months deposit
  - Requires a legal entity
  - Contracts 1 or 2 years (after that “free for all”, no rules on price increase.)
  - Upon departure: restore to casco



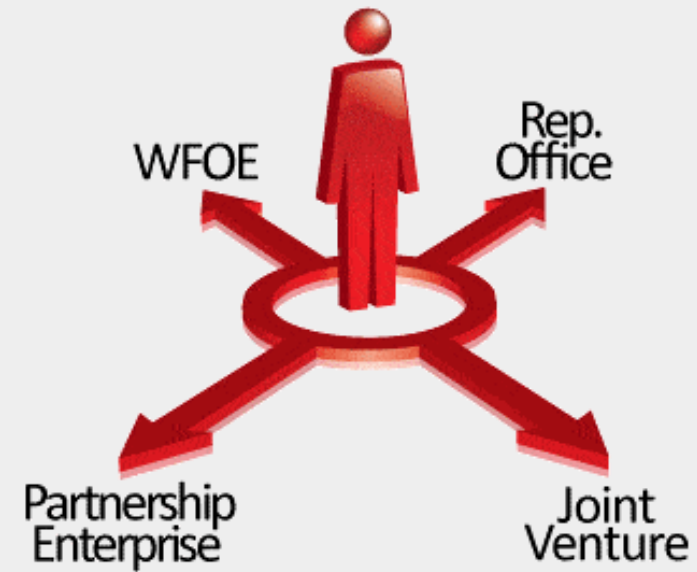
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## 2 Setup legal entity



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- Setup of a legal entity takes time & money
- Typical setup can take anywhere between 3 and 6 months  
(but closing an entity is 12 to 18 months)
- Various options:
  - Representative office
  - JV
  - WOFE
  - Partnership Enterprise
- Suggest to get local legal support



## 2 Setup legal entity

- **Application form;**
- Notice of pre-approval of company **name**;
- Feasibility study (exempt in some special zones), which is a kind of a **business plan**;
- **Articles of association** for the proposed WFOE;
- **Shareholders agreement** in case there are two or more investors/shareholders;
- **Environmental protection assessment report**  
(for projects that may have an impact on the environment, e.g. manufacturing);
- Foreign shareholder/investor's certificate of incorporation, **Business License**/registration or equivalent, which shall be notarized by the notary office of the home country, and legalized by the Chinese embassy or consulate in that country;
- **Letter of creditworthiness** issued by the bank of the foreign shareholder/investor;
- **Letter of appointment** (for the chairman, vice-chairman, directors of board and supervisors);
- **Power of attorney** for service of legal documents and notices;
- **Identity documents** of the legal representative, directors and supervisors of the WFOE;
- **Lease or land use right certificate.**



In principle, these incorporation documents are required to be in Chinese. The feasibility study, identity documents and creditworthiness documents of the foreign shareholder/investor may be written in a foreign language but must be accompanied by a certified Chinese translation (and in practice Chinese will be the governing language of the documents for application purposes).

## 2 Setup legal entity



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Business activity	Licence	Approval authority
Sales of books, newspapers or magazines	Licence for Publications Trading	State Administration of Press Publication, Radio, Film, and Television
Sales of pharmaceutical products	Licence for Pharmaceutical Trading	China Food and Drug Administration
Sales of food	Licence for Food Trading	China Food and Drug Administration
Sales of dangerous chemicals	Licence for Dangerous Chemicals Trading <sup>20</sup>	State Administration of Work Safety

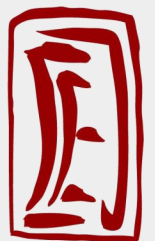
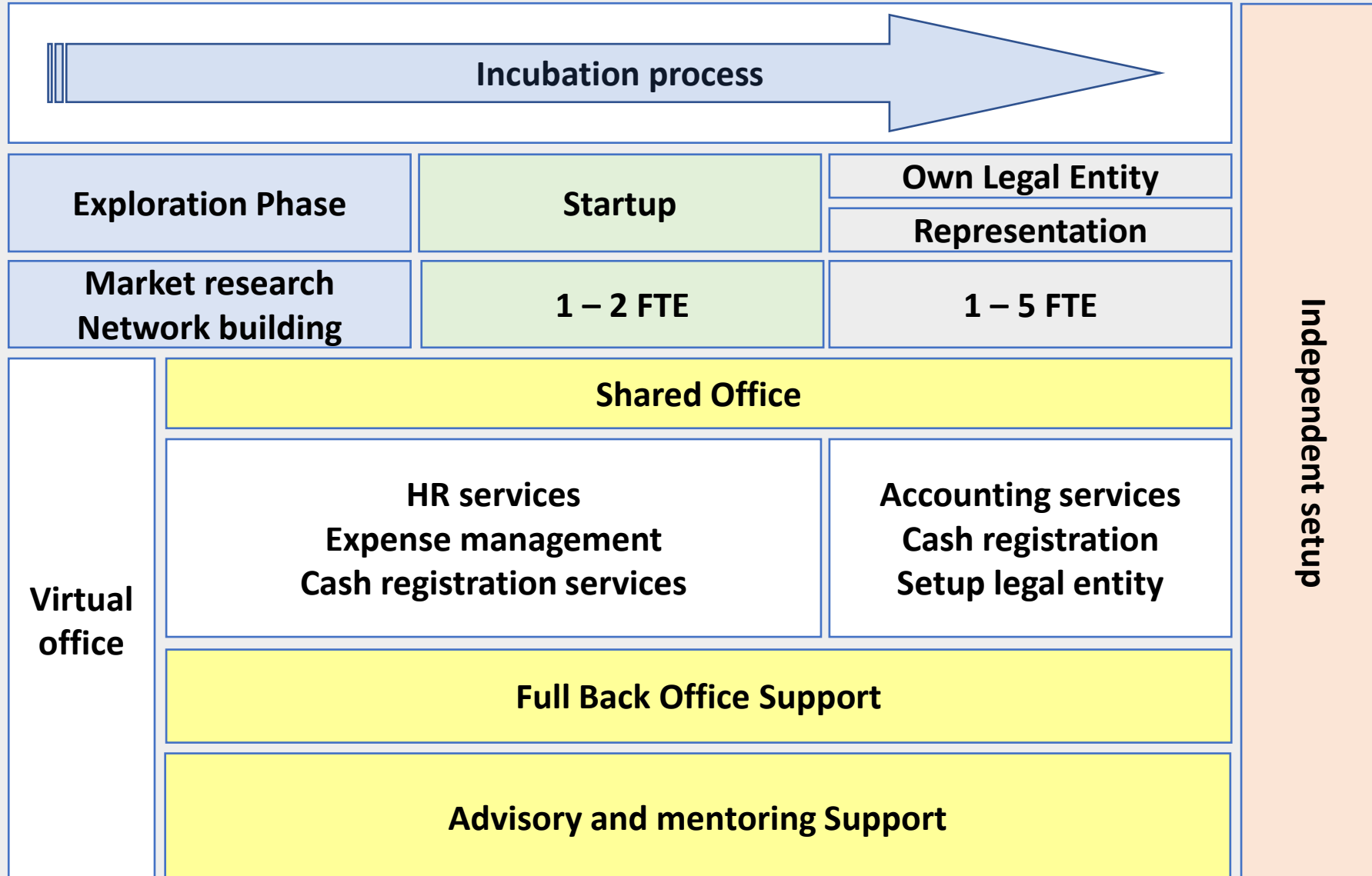
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Business Activity	Licence	Approval Authority
Manufacturing cosmetics	Cosmetics Production Licence	China Food and Drug Administration
Manufacturing food-related products coming into direct contact with foodstuffs	Production Licence of Industrial Products	Administration of Quality and Technology Supervision
Manufacturing food	Food Production Licence	China Food and Drug Administration





## 2 Setup legal entity



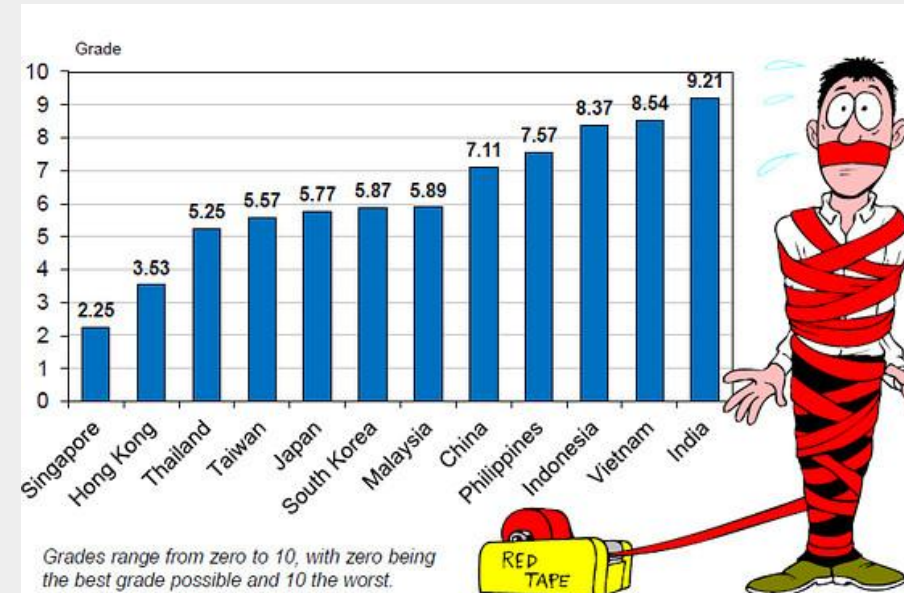
# 3

## Opening bank accounts



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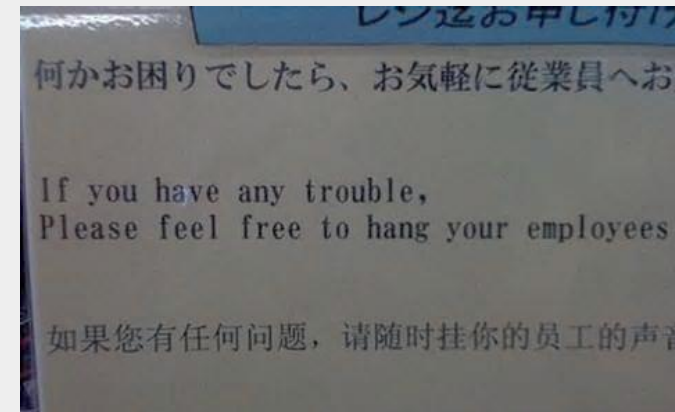
- Chinese banks have an extremely bureaucratic approach
- Don't expect any commercial attitude
- Very strict and rigid in regulation
- Foreign currency control
- Paper, papers, papers, ...
- Foreign banks have limited services
- Best to stick to the big Chinese brands:
  - BOC (Bank of China)
  - ICBC (Industrial and Commercial Bank of China)
  - CM (China Merchants Bank)
  - HSBC
- Capital account & working account



# 4 Hiring personnel

Some common statements:

- “ Chinese employees are not loyal ”
- “ Chinese personnel only care about salary ”
- “ Chinese personnel cannot be trusted ”
- “ Every employee has a side business ”
- “ Female employees are more trustworthy ”
- “ Chinese salaries are very low ”
- “ Employees have hardly any social benefits ”



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# 4 Hiring personnel



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- Finding and hiring personnel is critical for your success
- Learn to manage your Chinese employees
- Take the effort to learn about the social context. I will help you understand many aspects.
- China is no longer a cheap labor country
  - Blue collars (Shanghai) 7.000 RMB – 15.000 RMB
  - White collar (Shanghai) 7.000 RMB starters, 13.000 rmb Admin, 20.000 junior Manager, senior sales 35.000 RMB, Middle management 50.000, Upper management 75.000 to 300.000 RMB
- Background checks, credential checks, Interview (no rules ...)
- Structuring a salary package
  - Working hours & overtime
  - Employee Termination & Severance Pay
  - Maternity & Marriage Leave
  - Probationary Period
  - Sick Leave
  - Holidays and Leave Days
  - Non-Competitive Agreements

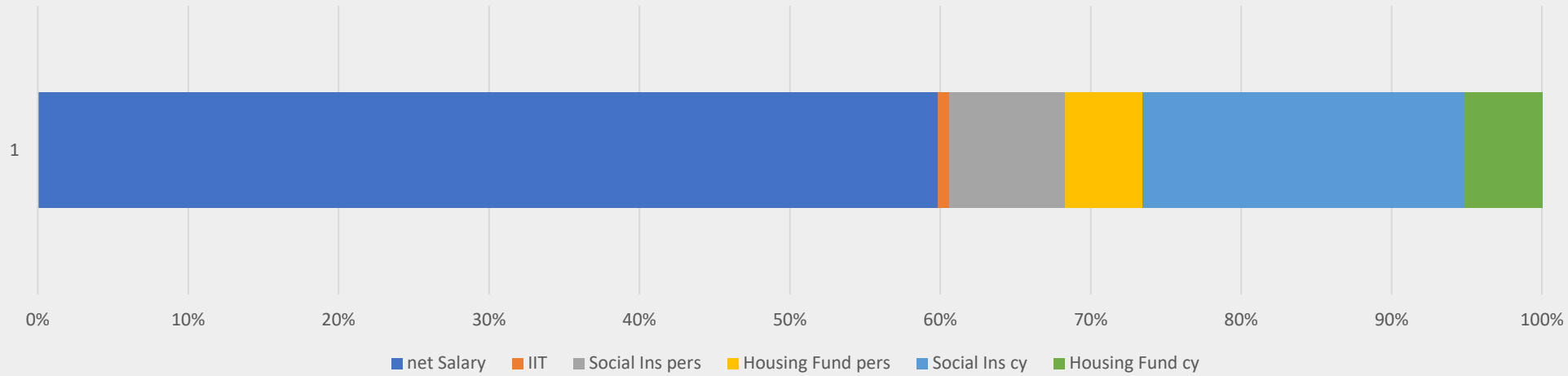


# 4 Hiring personnel



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Total Salary Cost



net salary 9.561

social contr pers	2.058
tax pers	114

2.172

social contr cy 4.236

gross salary 11.733

total cost for cy 15.969

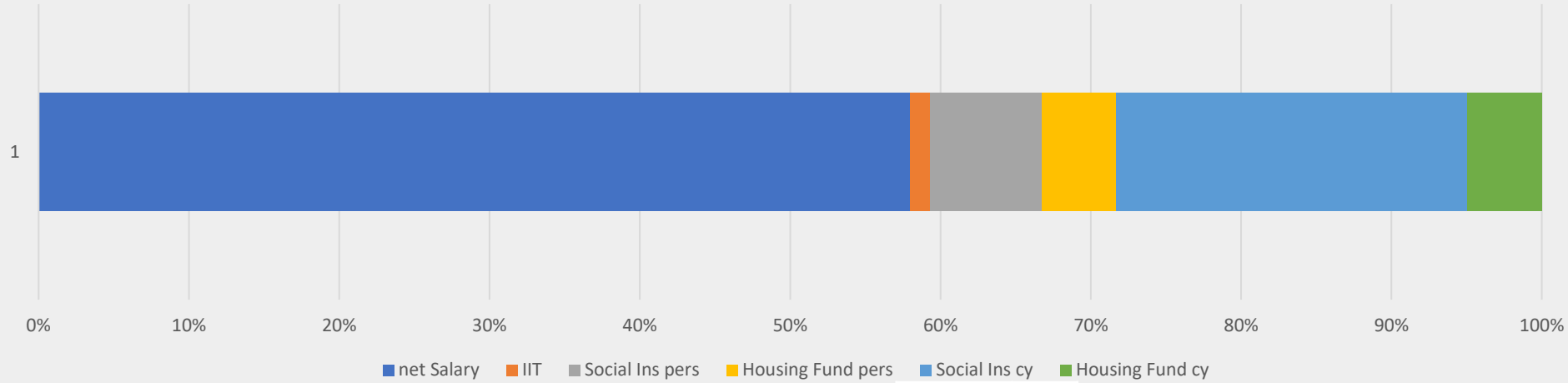


# 4 Hiring personnel



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Chart Title



net salary 20.219

social contr pers	4.310
tax pers	471

4.781

social contr cy 9.873

gross salary 25.000

total cost for cy 34.873

# 5 Find partners, clients, suppliers,...



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- AGAIN: Your success depends largely on the (local) people you surround yourself with.
- “West is best” never works. At Least meet half way.
- Build a personal network.
- Invest in building rapport before you do business  
You work with people, rarely with companies.
- Do thorough background research on partners, personnel and suppliers
- Don't be naive: In God we trust, everyone else brings proof...
- Stay out of regulatory grey areas
- Strictly abide by the regulations, foreign entities are more scrutinized than local entities.
- Do proper market research



# 5 Find partners, clients, suppliers,...



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- You are who you know ...
  - Guanxi as the oil in the Chinese economy. Very personal.
  - Building your network takes a lot of time and energy
- First relation then business.
- Recommendations are more valuable than publicity
- Gifts and meals are part of the tradition
  - To be carefully selected
  - If possible: discreetly checked to match

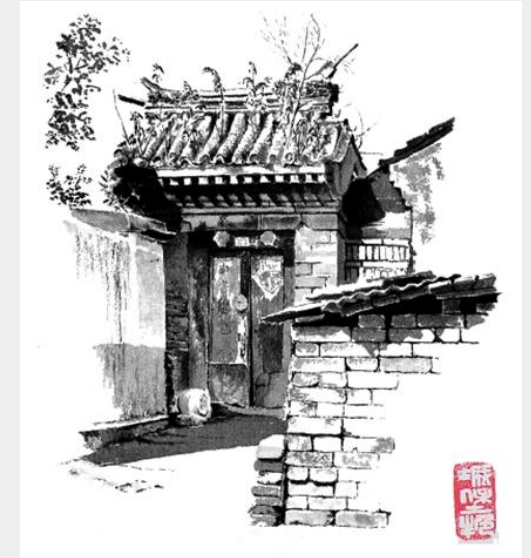


# 5 Find partners, clients, suppliers,...



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- Keep a healthy portion of suspicion:
  - **Fake Companies:** A potential partner may not exist at all.
  - **Paper Tigers:** A potential partner may promote itself as a leading company in its industry but is an imposter or does not really exist.
  - **Shell Companies:** A potential partner may possess all the required registration information but no significant assets or active business records.
  - **Parasite Companies:** A potential partner may rely too heavily on its relationship with local government officials.
- The company may be operating in a legally grey area, vulnerable to changes in government personnel.
- Opportunistic Companies: A potential partner may have good intentions but lack experience and is overly optimistic about its own abilities, often coupled with a mistaken belief that cutting corners and operating in a legally grey area is possible.
- “Charming, fluently English partners...”



# Recommendations

- Prepare: Suitable product or service (market research, P&L)
- Make a detailed cost budget
- Take your time to find Chinese employees
- Patience. Market entry can be long process
- Cautious (set your milestones)
- Realism (as apposed to naive)
- Network (face to face, social media, etc...)
- Minimally learn some basic mandarin. (it may help understand English (or Chinglish))
- IPR (be informed and get local support)
- Control access to stamps and USB Keys
- Get a WeChat account and or Company account



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# Don't be paranoid...

- Rule 1: Assess how Chinese Companies Treat Partner Companies
  - It is harder for Chinese companies to mislead other Chinese companies, and there is less incentive to do so.
  - Strive to learn how other Chinese companies treat (and are treated by) your potential partner company.
- Rule 2: Do not Take Company Introductions at Face Value
  - It is better to make introductions through your own trusted networks and advisors than through your potential partner company.
  - Suppliers, competitors, employees or customers involved with the partner company may have an agenda that benefits the partner company (and may even be part of a scheme).
- Rule 3: Always Ask Yourself, “Is This Too Good to be True?”
  - Remain vigilant throughout your due diligence.
  - Always be prepared for plain fraud.
- Rule 4: Scrutinize the Company Operations
  - The partner company may send you paperwork that is inaccurate at best and fraudulent at worst.
  - The best way to know a company's true identity is through assessing its business operations (due diligence stage 3).
- Rule 5: Scrutinize the Company's Paperwork
  - Always be on the lookout for mistakes, such as names of banks, locations, customers, suppliers, logistics, and production amounts (due diligence stage 1 and 2).
  - Verify key information through multiple sources (it is hard to manipulate every source).
  - A mistake may seem honest, but it may also be a crucial clue to the company's legitimacy.





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