



## Our Offices

### Maninvest Hong Kong

Unit 511, Tower one, Silvercord,  
30 Canton Road, Tsimshatsui,  
Kowloon, Hong Kong  
Tel: (852) 2851 6752  
Fax: (852) 2537 5218  
Mainland China/ Taiwan toll free  
line: 00800 3838 3800  
Email: Enquiry@ManinvestAsia.com  
Website: www.ManinvestAsia.com

### Maninvest Shanghai

Unit 2402, Block A,  
Universal Mansion,  
172 Yu Yuan Road, Jingan District,  
Shanghai 200040, China  
Tel: (86 21) 6249 0383  
Fax: (86 21) 6249 5516  
Email:  
Shanghai@ManinvestAsia.com.cn  
Website:  
www.ManinvestAsia.com.cn

### Maninvest Macao

Maninvest Asia, Limitada  
Rua do Campo N° 202,  
Edf Associacao das Senhoras 7°,  
Andar D, Macau  
Tel: (853) 2870 3810  
Fax: (853) 2835 3358  
Email: Macao@ManinvestAsia.com  
Website: www.ManinvestMacao.com

# The Dissolution of a Wholly Foreign-Owned Enterprise

A Wholly Foreign-owned Enterprise (“WFOE”) may be dissolved upon the expiration of the term<sup>1</sup> or when the WFOE suffers heavy losses due to mismanagement, force majeure, or when the WFOE becomes bankrupt or is lawfully closed because of a violation of Chinese laws or regulations, with the result that public interest has been harmed, or for any reasons specified in the WFOE's constitution.

In case if the WFOE does not dissolve properly, it can result in the following outcomes:

- The information of dissolved WFOE's legal representatives and shareholders will be recorded by the Industrial and Commercial Administration Bureau. They will be disqualified and will not be allowed to become directors, supervisors or managers in other WFOE(s).
- The unfavorable credit reports of the dissolved WFOE's legal representatives would be kept in government departments for at least seven years. The said legal representatives would also be punished and would be ordered to pay compensation to the relevant governmental departments.

## The Procedures of Dissolution

Dissolving a WFOE in China would typically involve the following eight steps:

- 1. Setup Liquidation Committee** - The WFOE is required to setup a liquidation committee for preparing liquidation application and reports. This consist of balance sheet, inventory records and financial evaluation report. Please note that the creditors must be informed in written form within ten days after the committee is setup.
- 2. Publish a public announcement of the dissolved WFOE** - The WFOE is required to publish an announcement of dissolution to the public in one national newspaper and also in another local (provincial or municipal level) newspaper.
- 3. Submit liquidation reports to the authorities** - The committee is required to submit liquidation application and reports which consist of a WFOE dissolution application form, foreign investment enterprise authorized certificates and business license to relevant authorities (such as the Industrial and Commercial Administration Bureau or the Municipal Commission for Foreign Economic Relations and Trade) for their permission to dissolve the WFOE.

<sup>1</sup> There is no limitation under PRC law as to how long such a term must be, although WFOE's typically have a term of 15 to 25 years.

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**4. Dissolution registration in Tax Bureau** - After obtaining the permission-in-principle from the authorities, the pre-dissolved WOFE is required to apply for de-registration in the local Taxation Bureau and State Administration of Taxation Bureau. Please note that all tax payments are required to be settled before the dissolution registration.

**5. Dissolution registration in Customs** – The pre-dissolved WOFE is required to submit the dissolution application, customs registration certificates and business license to the local Customs.

**6. Dissolution registration at the Industrial and Commercial Administration Bureau** - The committee is required to submit liquidation reports together with dissolution registration permissions from the Tax Bureau and Customs, to the Industrial and Commercial Administration Bureau.

**7. Bank account cancellation** - The dissolved WOFE is required to cancel its bank account in China. A dissolution application, along with the dissolution permission from Industrial and Commercial Administration Bureau and other relevant documents must be submitted.

**8. Other actions for dissolution-** The dissolved WOFE is required to inform other relevant government departments for the dissolution e.g. State Administration of Foreign Control, Quality and Technical Supervision Bureau, Census and Statistic Bureau, Finance Bureau and Public Security Bureau etc.

#### **Time Required**

The length of time for dissolving WOFE mainly depends on the position and condition of the WOFE, for example its financial position and tax payment conditions. It normally takes 4 to 6 months in general to complete the whole dissolution process.

#### **Audit Required**

Audit is required before and during process of dissolution. Unlike the usual audit performed by a Certified Public Accountant, the dissolution audit would be handled by the Tax Bureau, which requires the WOFE to provide relevant taxation documents and to cooperate with them closely.

## **The Role of Maninvest**

Maninvest can help investors to:

1. Prepare pre-establishment documents (minutes, power of attorney etc.), arrange translation, notarization and certification from various authorities.
2. Engage Registration Agent and supervise the registration work.
3. Draft the necessary project proposal and feasibility study report.
4. Engage auditors for the examination of capital injection and annual examination.
5. Locate suitable business address and arrange for leasing, set up office, including arranging telephone, fax and broadband, acquisition of office machine and furniture.
6. Employ local staff and complete formalities in accordance with labour laws.
7. Post-establishment registration work and open bank accounts.
8. Annual Joint Inspection Report.

Through our offices and staff in Shanghai and Hong Kong, Maninvest shall follow through the establishment process and save investors time and trouble.

## **How Maninvest Can Help You**

The directors and management of Maninvest are professionals in the offshore industry having served the Asia market for over 22 years. Through our offices in Hong Kong, Shanghai and Macao as well as our associates in other Asia cities, we offer a full range of comprehensive value-added services to professional advisors and their clients.

Maninvest offers the following services:

- Formation of corporate and business structures in Shanghai
- Incorporation of companies/structures in other onshore/offshore jurisdictions
- Full corporate management services
- Registered office, business office, mail redirection and business centre
- Accounting and re-invoicing services
- Tax and asset planning services
- Asset protection and preservation advisory services
- Business establishment services
- Market exploration services

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