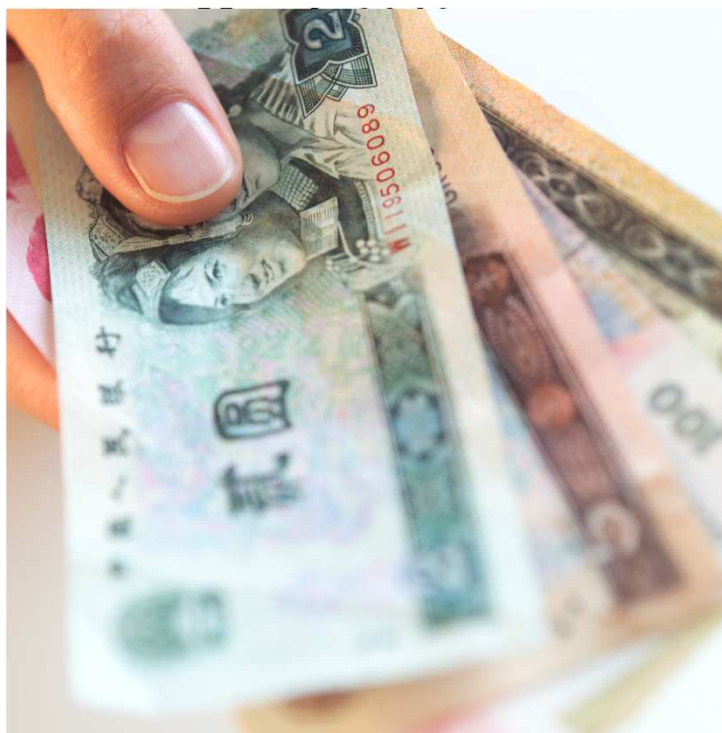


Your China Sales Program – *Demystifying the process*

**Presentation for the members of the
International Trade Association of Greater Chicago**

By Kristina Koehler, Director of Klako Group



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Klako Group – About Us

Klako Group is an international accounting and management consulting firm established in 1979. Klako Group is managed by an international and local team of over 120 consultants, accountants and legal professionals who work in our ten offices in China, Hong Kong and Singapore. From our offices in Beijing, Chengdu, Dalian, Guangzhou, Hangzhou, Hong Kong, Shanghai, Shenzhen, Singapore and Tianjin, we offer the following core services:

<u>Corporate & Business Services</u>	<u>Private Client Services</u>
<ul style="list-style-type: none">• Market Entry Consulting• Incorporation• Corporate Compliance• Accounting & Payroll• Tax Advisory• Audit & Assurance• Recruitment• Re-invoicing & Logistics Coordination• Trade & Supply Chain Solutions	<ul style="list-style-type: none">• Estate Planning• Trusts• Wills• Charities

Our typical clients are small-to-medium sized privately owned companies as well multinational corporations. We recognize that each customer has individual requirements and our objective is to provide an efficient and cost effective service tailored to their specific needs. Our goal is to develop a lasting partnership with our customers with a focus on protecting their investments and maximizing their returns from their activities throughout China and Hong Kong.

Our International Desks speak English, German, Spanish, French, Italian, Portuguese, Russian and Japanese



Klako Group – About Your Speaker



Kristina Koehler
Director of Klako Group

Kristina has worked in the Chinese legal and accounting industry since 2003 when she joined Klako Group as its China Director. Fluent in English, German, French and Mandarin, Kristina advises and represents Western clients (mainly European, North & South American and Australian) with their business interests in China. She has worked on numerous complex transactions including foreign direct investment including corporate (re)structuring and company liquidations, M&A deals and frequently advises on and represents foreign clients in tax, accounting and trade related matters.

Kristina is co-author of Klako Group's monthly magazine, ChinaInvest.biz – which provides insight into investment, tax and operational issues for foreign companies entering and expanding throughout China. Kristina has also contributed to numerous other publications all relating to the Chinese legal, accounting and business practices and in addition frequently holds seminars, presentations and webinars at business groups and government institutions around the world.



Your Sales Program in China

WHOLESALE INTO CHINA



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Your Sales Program in China
Option 1: Outsource all Import Activities

1. Selling with NO representation

2. Looking for an appropriate distributor

3. Outsource your “Sales office”



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Your Sales Program in China

Importation Regulations

Commercial ICP (Internet Content Provider) License

Commercial ICP License is required for e-commerce activities which involve providing media content, sale of services, or acting as intermediary, selling third-party products online.

CCC Certificates for Electrotechnology

The most widely-recognized authorization process is China Compulsory Certification, or CCC. It applies primarily to electrotechnology and motor vehicles. Products missing the required CCC certificates will be turned away at the border.

Medical Products: CCC and Additional Registration

The CCC requirement also applies to various medical devices - including x-ray machines, electrocardiographs, and pacemakers. All medical devices must be registered with the State Food and Drug Administration (SFDA).

Boiler, Pressure Vessels, and Safety Equipment: SELO Approval

Boilers, pressure vessels, and safety equipment are subject to "Manufacture Licensing of Special Equipment" guidelines. These place special emphasis on the manufacturer's qualifications and compliance with industry standards. The manufacturer must therefore create a special quality management handbook, along with a product sample, as part of an audit. This has come to be known as "SELO approval," given the Special Equipment Licensing Office associated with the procedure.



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Your Sales Program in China

Importation Regulations

Hazardous Substances in Electrical and Electronic Products

Since March 2007, labels have been required on electrical and electronic products containing hazardous substances. This regulation is comparable to the European RoHS Directive 2002/95/EC. There are some differences in the scope and implementation of the guidelines - however, the six regulated hazardous substances are the same.

Telecommunications and Radio

The State Radio Regulation Center (SRRC) requires state laboratory testing and approval for radio equipment. Telecommunications devices that fall into one of 28 product categories require a Network Access License (NAL). These devices must also be tested before receiving approval.

Import License for Used Machinery

There is no general authorization procedure for machinery entering China, with the exception of certain spare parts and welding machines. An import license is, however, required for used foreign machinery. This is issued by the Chinese authority AQSIQ..

Energy-Efficient Products

The China National Institute of Standardization (CNIS) issues labels for energy efficiency in various products - and the list grows ever longer. It already includes refrigerators, air conditioners, lights, and three-phase motors. If your product meets the Chinese standards, it may receive the Energy Efficiency label.



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Your Sales Program in China

Importation Regulations: CCC Certification & Product List

1. Electrical wires and cables (total 5 subcategories)
2. Circuit switches, electric devices for protection or connection (total 6 subcategories)
3. Low-voltage Electrical Apparatus (total 9 subcategories)
4. Low power motors (total 1 subcategory)
5. Electric tools (total 16 subcategories)
6. Welding machines (total 15 subcategories)
- 7. Household and similar electrical appliances (total 18 subcategories)**
8. Audio and video apparatus (not including the audio apparatus for broadcasting service and automobiles) (total 16 subcategories)
9. Information technology equipments (total 12 subcategories)
10. Lighting apparatus (not including the lighting apparatus with the voltage lower than 36V) (total 2 subcategories)



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Your Sales Program in China

Importation Regulations: CCC Certification & Product List

11. Telecommunication Terminal equipments (total 9 subcategories)
12. Motor vehicles and safety parts/accessories (total 17 subcategories)
13. Motor vehicle Tyres (total 3 subcategories)
14. Safety Glasses (total 3 subcategories)
15. Agricultural Machinery (total 1 subcategory)
16. Latex Products (total 1 subcategory)
17. Medical Devices (total 7 subcategories)
18. Fire Fighting Equipments (total 3 subcategories)
19. Safety Protection Products (total 4 subcategories)



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Your Sales Program in China

Importation Regulations: CCC Certification & Product List

7. Household and similar electrical appliances (total 18 subcategories)

- Household refrigerators and food freezers: with the effective volume under 500 Liters, household and similar use with/without frozen compartment, frozen food storage cabinet, freezer and their combination;
- Electric fans: electric fans with single-phase alternate current and direct current for household and similar use;
- Air-conditioners: the refrigeration shall not be exceed 21000 kcal/ h for household and similar use;
- Motor-compressors (input power should be under 5000W): sealed motor-compressors (hermetic and semi-hermetic type) for air-conditioners and freezing appliances for household and similar use;
- Household washing machines: washing machines with/without the devices of water heating, spinning extraction and drying;
- Electric water heaters: including fixed storage water heaters and instantaneous water heater, heating water to a temperature below its boiling point;
- Room heaters: radiant heaters, panel heaters, liquid-filled radiators, fan heaters, convector heaters, tubular heaters for household and similar purposes;
- Vacuum cleaners: vacuum cleaners having the functions of dust or liquid suction, driven by either series-commutator motor or D.C. motors;
- Appliances for skin and hair care: appliances with electric heating components for skin and hair care of both human and animals;
- Electric irons: electric dry irons and steam irons for household and similar purpose;
- Electromagnetic cookers: electromagnetic heating kitchen appliance which may contain electromagnetic heating components single hob or hobs for household or similar purpose;
- Roasters: including rated volume not over 10L roasters, toasters, waffle irons, and similar appliances for household or similar purpose;
- Electric food processors: household food preparation machines and similar multiple-functions food preparation machines;
- Microwave ovens: household appliances for heating food and beverages using electromagnetic energy in one or more of the I.S.M. frequency bands OVER 300 MHz . These appliances may also include a browning or steaming functions;
- Electric cooking ranges, hobs, ovens and similar appliances: including household cooking ranges , stationary electric ovens, hobs, stationary cooking ranges, hob elements, grills and griddles, induction ovens and grills;
- Range hoods: electric range hoods installing above household cooking ranges, hobs and similar cooking appliances, with fans, lights and controllers;
- Appliances for heating liquids and hot/cold water dispensers;
- Electric rice cookers: automatic heat-preservation or timer electric rice cooker with heating components.



Your Sales Program in China

Importation Regulations: Food & Beverage Products

All the items need to be Qualified and can be imported into China

In order to know if a product is qualified, we would need the documents of origin in order to do a preliminary check. We would need to be notified 5-10 working days prior to air or sea shipment that the goods will be delivered in order that we can begin preparing for the following applications

Application for the Commerce Inspection (this includes obtaining the Hygiene License) – approx.15 working days.

Documents to be submitted as well as the Sales Contract with payment terms. This application needs to be done each time a product is imported.

Application for the Record Certificate – approx. 5 workings

Each importation has 1 Consignor and 1 Consignee and this needs to be registered. This is only one time as long as the Consignor and Consignee are the same.

Import and Customs Declaration – timeframe depends on the Customs Bureau



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Your Sales Program in China

Product Liability

Liabilities

1. Producer's Liability
2. Seller's Liability
3. Joint Liability
4. Possibilities of Limitation of Liability
5. Limitation of Action

Obligations of Producer and Seller

Contractual Liability

Other Liabilities

1. Administrative
2. Criminal

Scope of Damage Compensation

Insurance

Suggestions



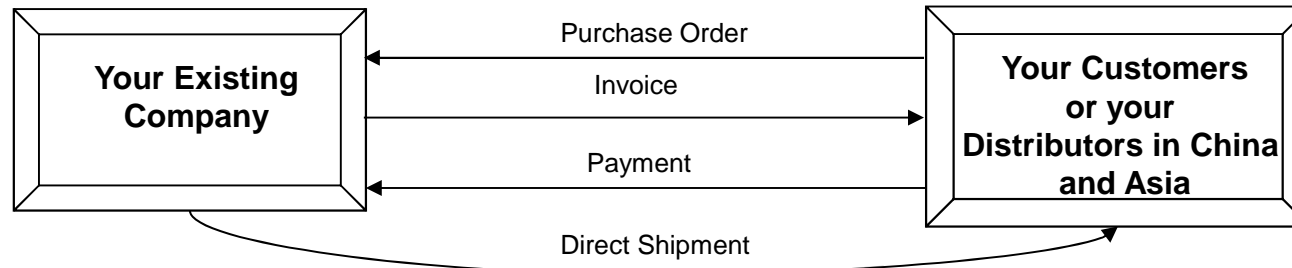
Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

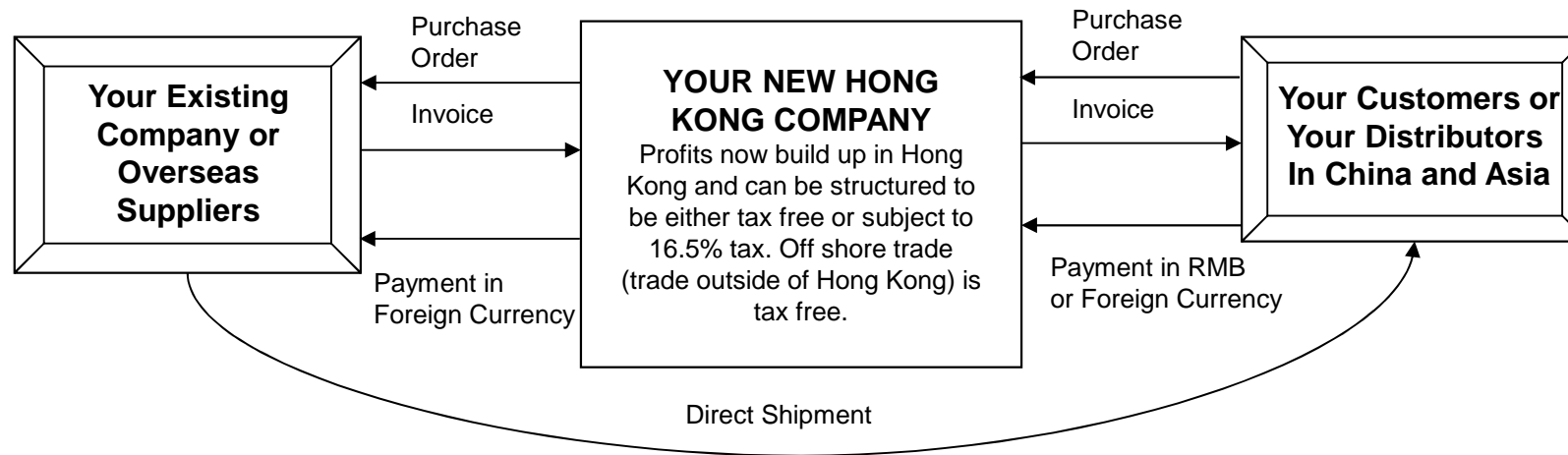
Your China Sales Program

Option 4: Re-Invoicing via a Hong Kong Company

Your current Structure



How the International Export Program Works

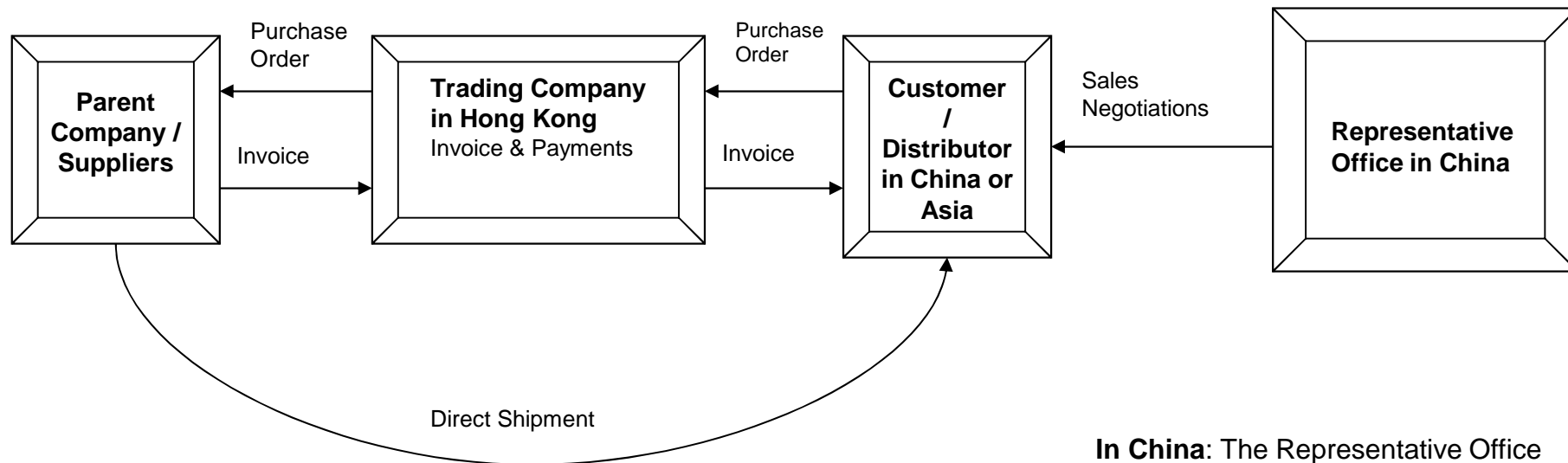


You can choose to either outsource your Hong Kong Company's re-invoicing management to Klako Group or should you not wish to incorporate your own Hong Kong company then Klako Group can "lend" its own Hong Kong company to handle your trade transactions.



Your China Sales Program

Option 5: Hong Kong Trading Company and China Representative Office



In China: The Representative Office
Employs staff for the sales negotiations
(established near clients)

Advantages:

- Low Capital Investment
- Less Risk
- Tax Advantages
- Well developed Trading Structure
- No liability for the Parent Company
- Cost effective



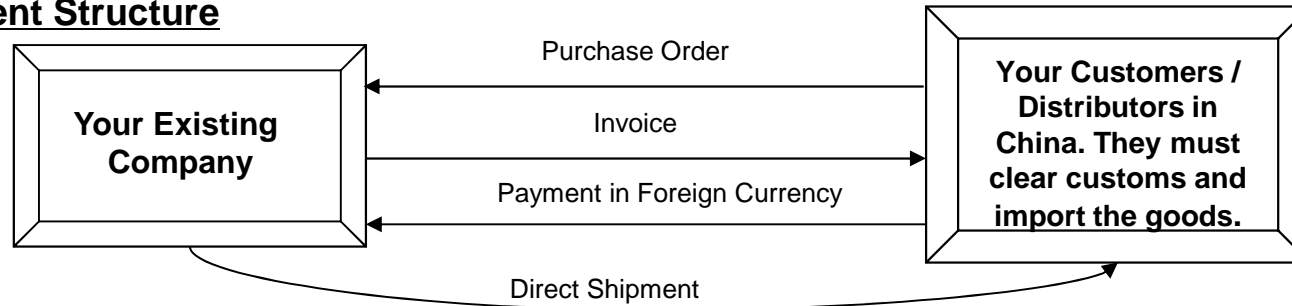
Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

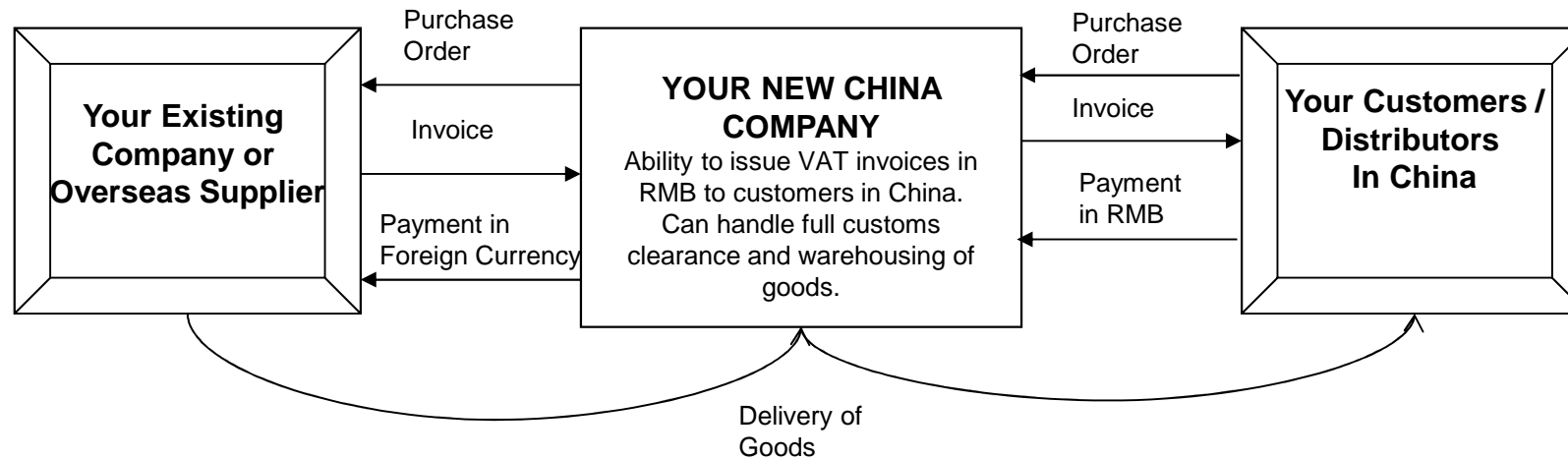
Your China Sales Program

Option 6: Re-Invoicing via a China Company

Your current Structure



How the International Export Program Works

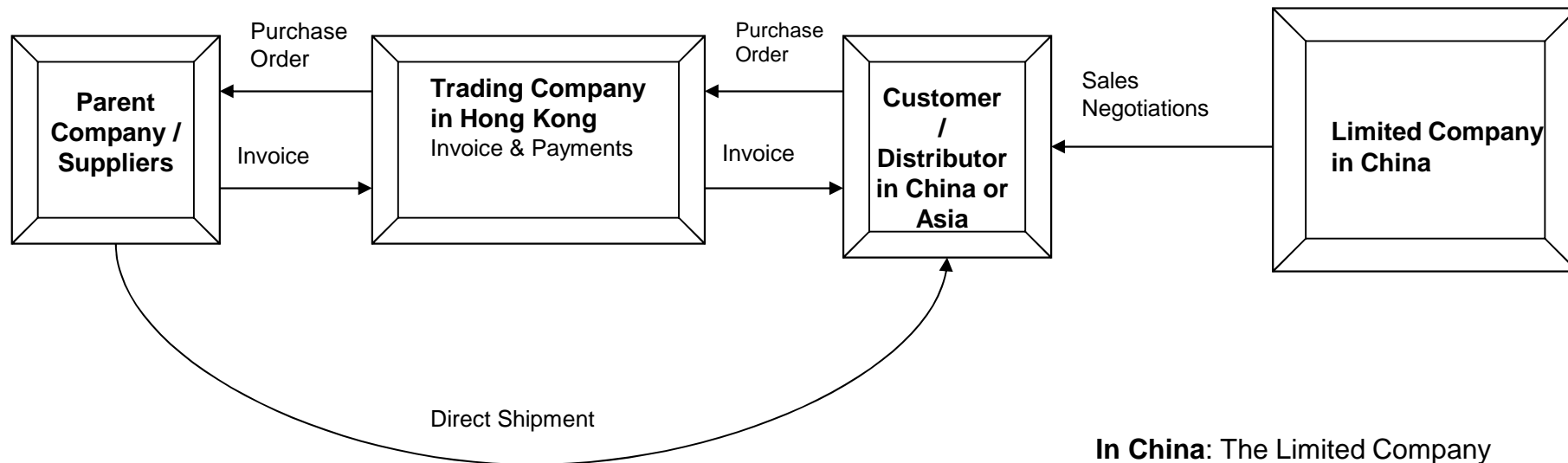


You can choose to either outsource your China Company's re-invoicing management to Klako Group or should you not wish to incorporate your own China company then Klako Group can "lend" its own China company to handle your trade transactions.



Your China Sales Program

Option 7: Hong Kong Trading Company and Limited Company in China



In China: The Limited Company
Employs staff for the sales negotiations
(established near clients)

Advantages:

- Low Capital Investment
- Less Risk
- Tax Advantages compared to a Representative office in China
- Well developed Trading Structure
- Cost effective



Klako Group

Incorporation, Tax, Accounting & Trade Services
throughout China, Hong Kong & Singapore

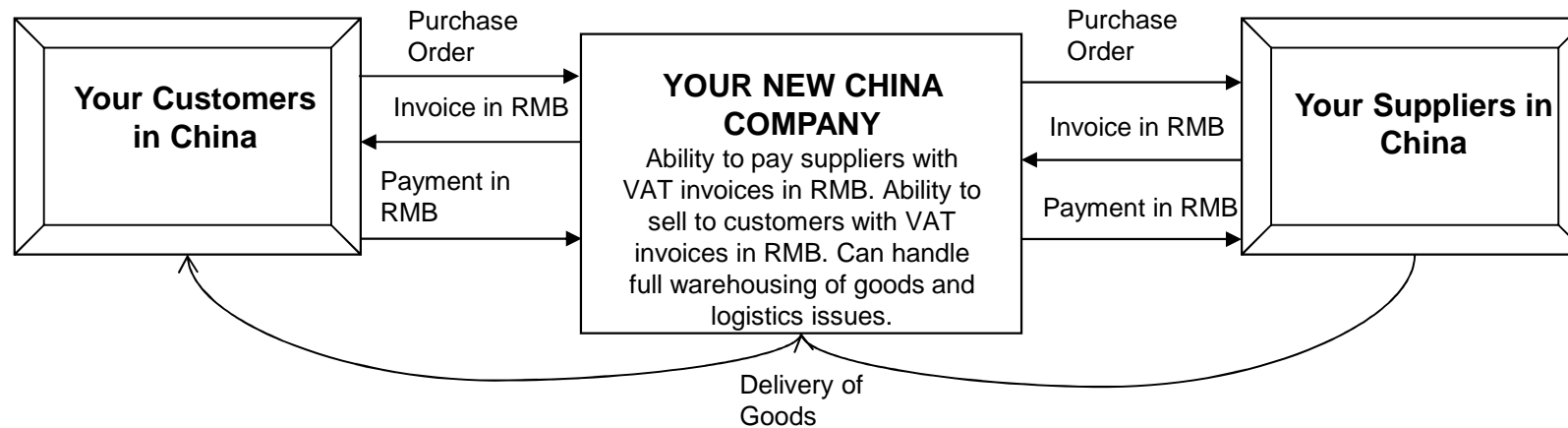
Your China Sales Program

Option 8: Re-Invoicing via a China Company

Your Current Structure

Not feasible to handle from your existing overseas company as the goods would need to be exported from China and then re-imported into China.

How your Domestic Sales Program Works



You can choose to either outsource your China Company's re-invoicing management to Klako Group or should you not wish to incorporate your own China company then Klako Group can "lend" its own China company to handle your trade transactions.



Your Sales Program

Option 3 in detail: Outsourced Sales Office in China

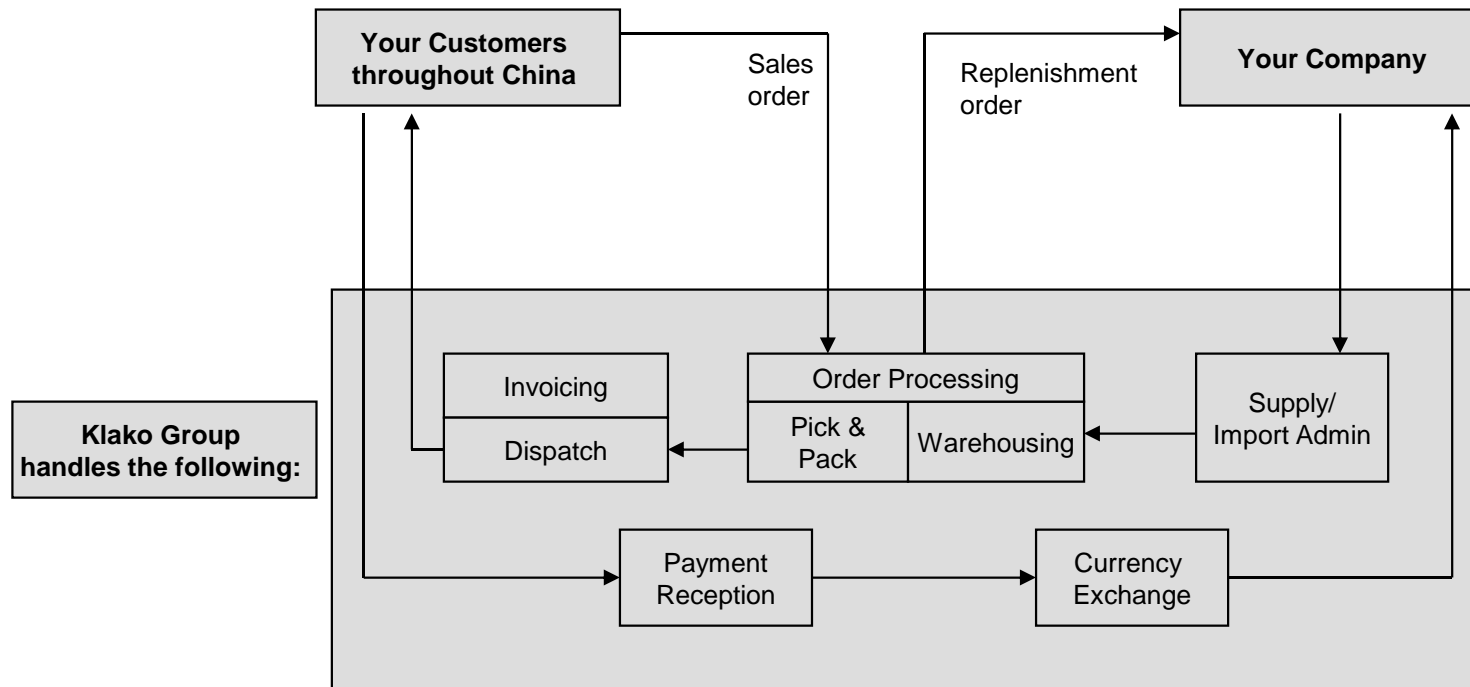
- **Trademark Registration and/or Patent Registration**
- **Employment of a designated Sales Team**
- **Distributor or Customer Search**
- **Development of the Chinese Website & Marketing Material Design**
- **China Trade Fair Preparation & Exhibition**
- **Sales Meetings**
- **Distribution**
- **Order Processing & Follow Up**
- **Logistics Coordination & Warehousing**
- **Import, Customs Clearance & Invoicing Services**



Your Sales Program

Option 3 in detail: Outsourced Sales Office in China

Typical Workflow



Klako Group offers an integrated service package for selling goods in China. Our service offers you a coordination center in China providing sales, marketing, distribution and after-sales service.



Your Sales Program in China

***RETAIL &
E-COMMERCE
IN
CHINA***



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Consumer Behavior

Today

160,000,000 Chinese online shoppers

End of 2013

231,000,000 Chinese online shoppers



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Consumer Behavior

Today

- 90% of online shoppers are between 10-39 years old
- Over 70% are living in urban areas
- Have a monthly income of under RMB 5,000
- 45% are women



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Who stays away from Online Shopping?

1. They want and need to see the product
2. Worry about after-sales service
3. Online payment system is too complicated
4. Do not have a debit/credit card

Besides point 1 – all other criteria are improving dramatically and will be simplified for users to transact.



What products are interesting?

1. Fashion
2. Cosmetics
3. 3C/home appliance
4. Daily Goods
5. Food products
6. Baby products



Ecommerce Regulations

Internet Content Provider (ICP) License

This license can only be obtained through the Ministry of Industry and Information Technology. There are two types of licenses:

Commercial ICP License – this license is required for e-commerce activities which involve providing media content, sale of services, or acting as intermediaries selling third-party products online. Foreign investors are not allowed to own a majority share of a company with a commercial ICP license.

Non-Commercial ICP License – this is required for all websites hosted in China and depending on local interpretation it is sufficient to sell goods produced as part of an FIE's business.

In summary if you are distributing products similar to the model as Amazon or Tmall to end consumers then you would need a Commercial ICP License. If you are a general trader already or a manufacturing entity and you would like to sell your stock online, then you can do this under a Non-Commercial ICP License (but with varying approval rights).

.



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Business Models

1. Website outside of China

Advantages

- A website developed for the Chinese market but hosted outside China is fairly easy to setup. The website can be in simplified or traditional Chinese.
- The website can include the acceptance of Chinese credit cards if required – this needs to be discussed with the bank on how to handle.
- There are options of using companies such as Alipay to assist in the payments.

Disadvantages

- Delivery issues as the products would be imported into China – the customer would be liable to pay the import duty.
- After sales service would be difficult at a distance – a China desk hotline of answering enquiries or complaints in the Chinese language would be needed
- Cannot receive the ICP license and there is a risk of being blocked by the Chinese government without warning or even realization that you are blocked.



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Business Models

2. Website in China

Advantages

- A website is developed for the Chinese market and is hosted in China
- Easily able to translate content into China
- Website would have easy access to the acceptance of Chinese credit cards
- Delivery issues would not be a problem whether products are imported or purchased locally
- After-sales service would be managed locally

Disadvantages

- In order to host a website in China, a legal entity must be established in China
- ICP License is required together with a majority Chinese partner



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Business Models

3. Third Party Platform outside China

Advantages

- Reduced cost for setup as no need to develop a website, deal with hosting the site or managing the ICP license

Disadvantages

- Unless the platform is marketed in China, Chinese consumers are unlikely to use the site due to language and payment issues
- Delivery issues as the products would be imported into China – the customer would be liable to pay the import duty.
- After sales service would be difficult at a distance – a China desk hotline of answering enquiries or complaints in the Chinese language would be needed



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Business Models

4. Third Party Platform in China

Advantages

- Outsourcing the complete IT aspect
- Chinese consumers are familiar with these platforms – have accounts already established and know the procedures
- The platform handles the after-sales service as well as delivery of the products

Disadvantages

- The platform has its own terms and conditions
- Annual fees for utilizing the platform have been rising year on year
- Generally requires a legal entity to be established in China in order to sign the service agreement



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Product Liability

Liabilities

1. Producer's Liability
2. Seller's Liability
3. Joint Liability
4. Possibilities of Limitation of Liability
5. Limitation of Action

Obligations of Producer and Seller

Contractual Liability

Other Liabilities

1. Administrative
2. Criminal

Scope of Damage Compensation

Insurance

Suggestions



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Recommendations

1. The trend for E-commerce is large and growing and should be a serious consideration for any FIE looking to access China's markets.
2. Before embarking in E-commerce in China consider the whole process carefully, from when the customer first clicks on „go to cart“ to when the goods are delivered. After sales services (e.g. returns) should also be taken into account.
3. As part of this process, the company's logistics strategy should be looked at particularly carefully: Which cities should be targeted and which logistics providers will the company use to deliver to these cities? Where are the goods being warehoused? Do the goods have special warehousing and transport considerations?
4. Whether on your own platform or on a third party platform, great efforts will have to be made in marketing in order to distinguish the company's online offering from the multitude of other offerings. Use all the electronic marketing tools at your disposal including search engine optimisation (SEO), key word advertising and social networking platforms.
5. For third party platforms, make sure you understand how the ranking systems work. Losing half a star from your ranking will have a significant impact on your sales.
6. Do not underestimate the resources (time, capital, human) that you will require to develop and maintain your online offering. Third party platforms will have to be monitored constantly and this combined with online marketing and operations will require, in all probability, a separate dedicated team.



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Klako Group – Our Team

Our founder, Mr. Klaus Koehler, has lived in Hong Kong since 1970. After many years of international trading activities with Hong Kong and China, he established Klako Group Holdings and its associated entities in 1979. Since then, Mr. Koehler has built up an experienced international team of accountants, legal and professional consultants (European, American, Chinese).

The members of our team are multilingual and combine many years of expertise in accounting, tax, manufacturing, international trade, consulting, recruitment, etc. Our cultural and professional diversity gives us the flexibility and knowledge required to understand our clients' needs and offer integrated service packages. Sharing our understanding and knowledge of both the West and China is one of our major principles for success.

Main Contacts:

Group Headquarters - Hong Kong

Mr. Sven Koehler
Group Managing Director & Director - *Hong Kong & Singapore*
10A Seapower Ind. Centre
177 Hoi Bun Road, Kwun Tong
Kowloon, Hong Kong
Tel: +852 2345 7555
Fax: +852 2357 5452
Email: info@klako.com

China Headquarters - Shanghai

Ms. Kristina Koehler
Director - *China*
15/F Cross Tower
318 Fuzhou Road,
Shanghai, 200001, China
Tel: +86 21 6391 3188
Fax: +86 21 6391 2032
Email: info@klako.com



Klako Group

Incorporation, Tax, Accounting & Human Resource Services
throughout China, Hong Kong & Singapore

Klako Group – ChinaInvest.biz Magazine and Webinars

Subscribe **FREE** today to Klako Group's

ChinaInvest.biz Magazine and Klako Group's Webinars

A Monthly Magazine and Webinars on Investment, Tax & Operational Issues
for Foreign Companies in China



www.chinainvest.biz



Klako Group

Incorporation, Tax, Accounting & Trade Services
throughout China, Hong Kong & Singapore