



Company Deregistration, Liquidation & Filing for  
Bankruptcy in China  
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## Introduction

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With the rapid growth in the Chinese economy and the opportunities in the market, many multi-national corporations have expanded their business into China and entrepreneurs are also still attracted by the potential for business growth. While the ultimate goal is success with the business, it is fundamental for any business owner / legal representative to plan for unforeseen circumstances throughout the journey and possibly also anticipate the advent of company closure, liquidation and deregistration.

Not all investments are successful however and exploring the options for turnaround, transformation and corporate restructuring if timed right can save the business. However in the most extreme case, deregistration and liquidation of the company might be the only options available. Liquidation of a company is a challenging process and can be problematic for various reasons, therefore professional advice and guidance should be sought before engaging in the process. In fact, there are three ways to exit the Chinese market:

- Voluntary Liquidation
- Voluntary Bankruptcy
- Involuntary Bankruptcy

In this article, we will discuss liquidation and the process and procedures, and in a later article both types of bankruptcy.

Beyond the financial challenges presented by liquidation of a business, China has a number of regulations, tax laws, and labor laws and bureaucracy to navigate through the process of liquidation and compared to business practices in more legal robust markets, the process is not quite as simple as closing the stores or factories.

## The Procedure of Liquidation

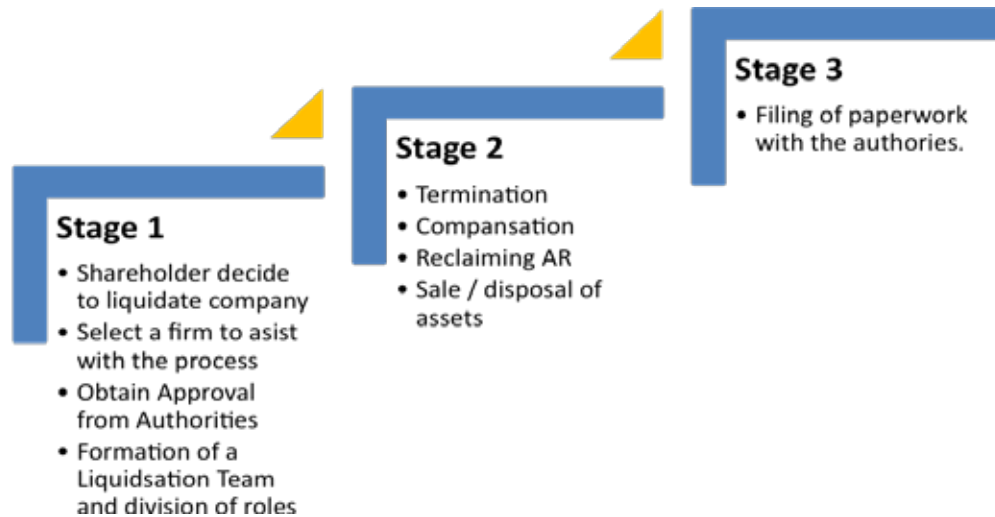
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It is important to keep in mind that liquidation does not always occur due to bankruptcy. In fact many reasons of both a positive and negative nature could lead a company to seriously consider liquidation.

Reasons could include the following:

- A resolution for dissolution is made at a meeting of a company's shareholders
- A company is absorbed in a merger or separated

- Expiration of business operation
- The business license is revoked by government, or ordered to be closed or cancelled by the government in the public's interests due to determined legal violations.
- A company undergoes financial difficulties and cannot anticipate transforming the business to deliver future profitability.
- Force majeure such as fire, natural disaster, warfare or changes in government regulations etc. enforces the liquidation of the company.
- A company decides to relocate all or a division into another country, to take advantage of cheaper labour, a more skilled talent pool, a more supportive political environment etc. This may necessitate the company to liquidate all of their assets in China.



### Stage 1

Once the company's legal representative or the shareholders decide to proceed to the liquidation process, the company in question needs to receive approval from the Chinese authorities before proceeding to commence the process. To initiate this, the appropriate documentation needs to be submitted to the local Bureau of Administration and Commerce.

Once authorisation has been granted, a company has to establish a three member liquidation team including a Chairman to guide the company through to liquidation. Typically, the shareholders of a business form this group. This might sound rather straightforward, however the reality of this is that it can be complex as a company's shareholders have their own interests as well to be taken into consideration creating a potential conflict of interest.

Additionally, the group members have to work objectively in both the company's and creditors best interests; otherwise the other party can take legal action towards the group members.

### Liquidation Group Tasks

Release a public declaration (within 60 days of authorisation) and communicate to creditors (within 10 days of authorisation) intentions pertaining to the company's liquidation

- Formation of a liquidation plan for submission to the appropriate parties.
- Conduct a valuation of the assets and liquidate those assets at a fair price in the best interests of the company and its remaining creditors
- Repayment of all due debts and taxes
- Generate a liquidation report as well as obtaining the necessary approvals from the Board of Directors and local authorities
- Ensure complete deregistration from all authorities applicable to the company
- Reallocate the remaining capital to the shareholders and close the bank account

### Stage 2

The second phase is directly linked to the many components of your business' administration (HR, Finance, Payroll, Accounting departments). At this stage, your human resources team have to act in compliance with all the Chinese regulations concerning the termination of all employees and applying financial compensation to employees in accordance with China Labour Law.

Also at this stage, your finance & accounting department will be required to collect all the receivables and ensure the liquidation group has either sold or written off all company assets (inventory, fixed assets). Completion of this will enable your company to close all accounting books and outstanding debts to creditors.

#### Distribution of Remaining Funds

All remaining funds after the sale of assets and collection should be distributed in accordance with the order set out under the laws of the People's Republic of China (PRC) governing company liquidation:



#### Stage 3

The final step of liquidation consists of filing the necessary paperwork. At this stage, our team will compile an up-to-date balance sheet that will illustrate the liquidation expense (for tax deduction purposes) revenues and the payment of debts to the relevant bureaus. Additionally, when the audit report is completed by our accounting experts, the process of deregistration can finally commence.

However, In China, the procedure for company deregistration is rather complicated, particularly in the face of mainland customs and tax departments. Thanks to our history of working closely with all areas of Chinese tax and business regulations / legislations, LehmanBrown is intimately familiar with every sector of company deregistration and can therefore effortlessly guide you through an otherwise challenging task.

#### About LehmanBrown International Accountants

LehmanBrown International Accountants is a China-focused accounting, taxation and business advisory firm, combining years of international expertise with practical China experience and knowledge. We are committed to providing individually tailored financial solutions to each of our clients. LehmanBrown is dedicated to providing personalized service by working closely with our clients to understand their individual business requirements. LehmanBrown offers a full range of financial and business management services from audit to acquisition integration and market entry strategies.





## About Us

Founded in 2001, LehmanBrown is a China-focused accounting, taxation and business advisory firm, operating in Beijing, Shanghai, Hong Kong, Macau, Shenzhen, Guangzhou and Tianjin. Our firm also manages an extensive affiliate network, providing service throughout China and reach across the globe.

Combining years of international expertise with practical Chinese experience and knowledge, LehmanBrown offers expert advice and support to both local and international clients. Within the mid - tier, we are regarded as a market leader and our clients enjoy access to a combination of senior and experienced counsellors from both China and abroad.

At LehmanBrown we recognise that you are unique, that you have unique requirements and we are committed to providing individually tailored financial solutions. LehmanBrown is dedicated to providing personalised service by working closely with our clients to understand your individual business needs. This enables us to offer the most up-to-date and expert advice.

## 关于我们

雷博国际会计成立于2001年，是一家获得许可，主要从事有关中国范围内会计、税务和财务咨询服务的公司，在北京、上海、香港、澳门、深圳、广州和天津设有专门办事机构，正积极在全国范围内建立广泛的联合专业服务网络。

综合多年的国际经验和对中国市场的深刻理解和实践体验，我们向广大国内外的客户提供高质量的专业服务和意见帮助。在雷博国际会计的服务过程中，我们作为市场中的佼佼者，您将得到来自中国本土以及其它国家的高级资深专家热忱的咨询帮助。

我们深刻认识到每一位客户都是独一无二的，并都有其独特的业务需求。雷博国际会计承诺将根据客户的不同业务需求，为客户提供个性化的财务解决方案。我们的专业人员将密切与您合作，以充分了解您独特的业务需求，从而提供满足您所需要的高时效、高质量的专业服务。

## Professional Services

### Audit & Assurance

#### External Audit

China Statutory Audit

US GAAP Audit

IFRS Audit

Hong Kong Statutory Audit

#### Internal Audit

Fraud Investigation

Forensic Accounting

#### Special Purpose Audit

Foreign Currency Audit

Royalty Audit

Capital Verification Audit

### Valuation Services

#### Corporate Valuation

Damage Assessment Valuation

Intellectual Property Valuation

Asset Valuation

Special Purposes Valuation

### Corporate Finance

Debt Restructuring

Acquisition, Disposal & Financing

### Mergers & Acquisitions

Transaction Advisory

M&A Divesture

M&A Integration

Financial Due Diligence

## Business Services

### Company Registration & Maintenance

Market Entry Advisory

Updating Company Certificates

Annual Inspection & Reporting

Company Secretarial Services

Company Ownership Transferring/Corporate Restructuring

Background/Credit Checking

Company Deregistration & Bankruptcy

### HR Support Services

China Visa Services for Expatriates

Social Welfare Structures

## Outsourcing Services

### Accounting & Bookkeeping

Budgeting & Forecasting

Financial Statement Preparation

Head Office Reporting

### Financial Management

Interim Financial Management

Finance Manager Function

CFO Function

Cash Flow Management

### Treasury Management

Set-up of Bank Account

### Payroll Services

Payroll Processing Setup

Expatriate Employees

Local Employees

Secondment & Temping Service

Chop Custodian Services

## Taxation Services

### Individual Tax Planning (IIT)

Tax Immigration & Investment Review

US & Overseas Personal Income Tax Planning & Filing

IIT Tax Payment Facilitation

Application for Individual Income Tax Refund

Expatriate Staff Individual Income Tax Staff Filing

Local Staff Individual Income Tax

### Company Taxation (CIT)

#### Tax Consulting

Corporate Tax Planning

Business Restructuring

Value Chain Review

Onshore / Offshore Investment

Transfer Pricing

#### Tax Compliance

Tax Due Diligence

Tax Deregistration

Negotiation of Tax Penalties

Tax Refund Application

Tax Representatives for Tax Audit

VAT & Customs Duty Clearance

PRC Tax Receipt Verification

VAT Application

VAT & Sales Tax Filing

Corporate Income Tax Reporting

## Specialist Accounting & Risk Management

### Internal Controls

Systems

Risk Management

Sarbanes - Oxley (SOX 404)

### GAAP, SEC & IFRS Compliance

#### US GAAP

US GAAP Financial Statement Preparation

US GAAP Conversion

#### Other GAAP

GAAP Conversion

Public Company Compliance

Financial Statement Preparation

#### IFRS

IFRS Accounting Repackaging

IFRS Financial Statement Preparation

IFRS Public Company Compliance

#### SEC

SEC Public Company Compliance

## Legal Services

### Legal Advisory

#### Labour Legal Advisory

Workforce Downsizing Advisory

Labour Tribunal Assistance & Advisory

Labour Law Review & Audits

Review & Preparation of Employment Contracts

### Corporate Legal Advisory

Legal Due Diligence

Corporate Restructuring Advisory

Review & Preparation of Articles of Association (AoA)

Review & Preparation of JV Contracts

Review & Preparation of Repatriation Agreements

#### Other Legal Services

Dispute Mediation & Advisory

Trademark & Intellectual Property Advisory

Debt Collection Assistance

Litigation Support

# LEHMANBROWN

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International Accountants



## Contact Us 联系我们

For further information about how we can add value and support your individual or business needs, please contact us.

如需为个人或企业获取更多的增值服务及业务协助信息，请与我们联系。

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