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Solutions for China Entry & Growth*

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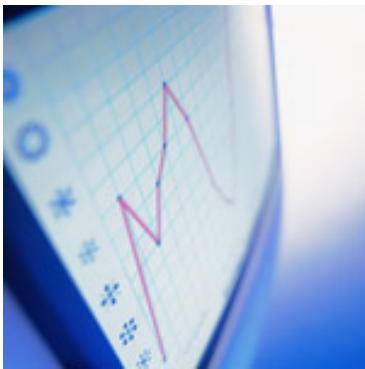
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Tax Updates

Tax Revenues fall short of expectation



One effect of the economic turndown has been a decrease in tax revenues - approximately RMB 190 Billion in the first half of 2009. This 6% decrease from the year before has prompted the State Administration of Tax to increase the number of audits it will conduct this year.

Foreign invested enterprises should expect increased scrutiny of their accounting books and prepare accordingly by making sure that their books have

been maintained properly. Local tax authorities have already begun requesting companies to review their books internally to ensure that they do not have outstanding tax payments; this includes not only corporate taxes but also individual income tax.

For more information, please email to tim.lamb@jljgroup.com

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Pudong issues new rules to attract PE Firms

With the issuance of new rules governing the establishment of Foreign Invested Equity Investment Management Enterprises (FIEIME), the government of Pudong is attempting to consolidate its position as China's financial hub by articulating the process of establishing equity investment management firms. This trial run, effective only within the Pudong New Area until June 30th 2010, lays out the requirements for establishment as follows:



- May be in the form of a Joint Venture (JV) or Wholly Foreign Owned Enterprise (WFOE)
- A minimum of US\$ 2 million registered capital with the investment paid in within 2 years to be used for the operation of the newly formed enterprise
- At least two senior managers with a minimum of 2 years senior management experience and 2 years equity investment experience
- At least one investor with appropriate experience in equity investment

Existing qualified foreign invested enterprises may also register to change their status to a FIEIME. Incentives have also been established to attract new investors as well as to encourage existing foreign invested enterprises to consider restructuring. These incentives include tax rebates for senior management and other subsidies for the newly formed enterprise.

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Human Resources

How to Nurture Managerial Talent in China



Generally speaking, finding talented employees for a business is a bit easier than finding capital or innovative ideas. But if you do business in China the opposite is usually the case. China's typically shallow available talent pool is growing as a result of the economic downturn; however, most European and American companies in the Chinese market still find recruiting qualified local employees challenging.

The root of the problem in China is that even with tremendous economic growth, it still is a developing country without a long history of management training and development programs. The problems become even more severe when a Chinese manager is required to deal with markets beyond his or her homeland.

The following tips are useful to acquire and retain talent in China:

- Integrate strategic management and talent planning into your HR practices. Implement the strategy and then recruit talent accordingly

- Know what your hiring requirements are and be prepared to be flexible in order to adjust to new market opportunities. After analyzing your company needs, make sure you consider internal recruiting, promotion and job churn in order to be able to deal with unexpected growth
- Give recruitment a stronger and sharper focus. Don't just dump the task onto the human resource department. Elevate recruitment to the level of other "must-do tasks" such as financial planning
- Build strong and long-term relationships. Start at the university level and accompany talent throughout their careers
- Develop in-house training schemes. For example, many top fortune 500 FMCG companies have developed enrichment programs such as providing a promising opportunity for Chinese managers to earn a master degree on the job
- There are many ways to seek out excellent talent. Do not stick to one scheme
- Turn problems into pluses. This can be done by letting inexperienced managers grow by tackling immediate problems
- Be comprehensive and consistent in your efforts to integrate talent-spotting on a regular basis. Find best practices for particular duties within your company

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Market Insights

Opportunities in China's healthcare industry - medical devices

China's healthcare industry has been dramatically improving in recent years, however, coverage is not homogenous and large service quality gaps exist between regions and/or cities (i.e. urban vs. rural). However, there is continued focus and effort to improve China's healthcare industry, which is creating significant opportunities for some foreign medical device suppliers.



Three key factors that influence opportunities in China's healthcare industry are:

- **China's growing medical needs** - China's population is aging, with an estimated 198 million people expected to be over the age of 65 by the year 2025; this will create significant demand for medical services and devices
- **Recent medical reforms** - the Chinese government is continually reforming and improving healthcare systems. Recently the government launched a program to enhance the public healthcare sector in order to lower patient costs and improve access to all of China's population by 2011
- **Rising demand for foreign medical equipment** - demand for high quality healthcare services requiring advanced equipment is increasing; domestic producers are not necessarily able to meet demand for precision equipment, thus creating opportunities for foreign suppliers

Although opportunities exist and industry growth is positive, companies considering entering the market will face specific challenges. Therefore, it is important that companies understand key factors in their specific market such as *hospital procurement policies, geographic analysis, and competitor analysis*.

For inquiries about this article or the work of our consulting division, please email Mark Ray at Mark.Ray@jljgroup.com

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The JLJ Group

The JLJ Group provides solutions to foreign companies entering and growing in China. Our core services include Market Consulting, Corporate Formation, Human Resources, Tax & Accounting as well as Business Process Outsourcing.

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