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Solutions for China Entry & Growth

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Market Insights

Identifying and Working with Suitable Partners in China - Part 1

Manufacturing and Sourcing Partners

With the world economy recovering from the global economic crisis, many companies are turning to China as their future growth market. There are various strategies for China entry, ranging from pure export, setting up a Representative Office, or establishing a Wholly Foreign Owned Enterprise or Joint Venture. Regardless of entry strategy, most foreign companies entering China will need to identify and work with partners at some point.

Below are some key steps for companies searching for manufacturing or sourcing partners:



1. **Understand key partner criteria** - there is likely no "perfect" partner, so it is important to determine key selection criteria for potential partners, such as price, quality ratio, delivery time, language ability, etc.
2. **Scan the Market** - in both English and Chinese; there are many qualified potential partners that do not have English websites
3. **Commercial Due Diligence** - to ensure that the sourcing company or "manufacturer" is legitimate, has appropriate machinery to manufacture to specifications, etc.
4. **Request Samples (manufacturing)** - request samples of the products and any required quality certificates; samples should be to production specifications
5. **Prepare Agreement** - to ensure effectiveness in China, agreements or contracts should be based on Chinese law; it is recommended to use an attorney familiar with the particulars of Chinese contract law

These are only a few of the key steps necessary to search for potential partners. In addition, foreign companies should take necessary steps to protect intellectual property (especially in manufacturing), such as registering patents.

Companies searching for sourcing partners in China will face specific challenges and have unique needs regarding potential partner(s). Therefore, it is even more important to properly scan the market and conduct business due diligence.

For more information about finding suitable partners in China, please email Mark Ray at mark.ray@ijigroup.com

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Tax Updates

Shanghai Starts to Levy Local Education Surcharge



Effective January 1st, the Shanghai municipal government has introduced a local education surcharge of 2%. The new circular (Hu Fu Fa [2011] No.2) has effectively raised the aggregate surcharge burden for many enterprises in Shanghai to 13% of turnover tax.

The circular clarifies that all companies and individuals (including foreign invested enterprises, wholly foreign-owned enterprises and foreign individuals) that are subject to payment of value-added tax, consumption tax, and business tax within Shanghai shall pay the local education surcharge.

This circular was released after a recent State-level increase in December 2010 on turnover tax surcharge for foreign investors to pay urban construction tax (7%-1%), and education surcharge (a flat rate of 3%), which had been exempt for foreign investors. Turnover taxpayers in Shanghai should be mindful of this tax surcharge when preparing for their upcoming filings.

For more information about turnover tax or other tax issues, please contact tim.lamb@ijigroup.com.

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Human Resources

Annual Bonus for Employees

It is common practice that employees receive an annual bonus either before or shortly after Chinese New Year. The annual bonus, which is also known as the "13th month pay" is performance based. Even though annual bonus is not mandatory, it is especially important in 1st tier cities where success and monetary reward is tied together.

As opposed to semi-yearly or quarterly bonus, the tax base for annual bonus is 1/12 of the bonus received, instead of the full bonus. Therefore, the corresponding tax rate for calculating annual bonus, in most cases, is reduced, benefiting employees in paying less individual income tax.



Please be reminded that the new year is also time to prepare individual income tax and employees, whose annual income amounts over RMB 120,000 in 2010, are required to declare taxes before March 31st, 2011, in line with current government regulations.

For more information about annual bonus and individual income tax, please email to may.bai@ijigroup.com.

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New Review Procedure for M&A Deals by Foreign Enterprises



China announced earlier this month that a state-level commission will be instituted for reviewing mergers & acquisition (M&A) deals by foreign firms in China.

According to ministry of commerce (MOFCOM) spokesman, Yao Jian, the new regulation, that will come into effect in March, will facilitate foreign invested enterprises (FIEs) growth and improve the quality and structure of foreign direct investment (FDI) in China. Moreover, adopting the new commission will improve the legal security of China's business sector along with its opening-up drive, and increase policy transparency, said Yao.

The review will apply in cases where a foreign company offers to acquire 50% or more of a Chinese company. Foreign enterprises that pertain to national defense, agriculture, energy, resources, key infrastructure, transport systems, key technology sectors and important equipment manufacturing industries - may be subject to review.

China attracted over \$105 billion last year in FDI. M&A activities accounted for 3% of FDI in China, but are anticipated to increase rapidly over the coming years.

Until detailed measures are released, it is still uncertain whether the new regulation will create another layer of bureaucracy for foreign investors or, as many hope, may actually bring some much needed transparency to the approval process of M&A transactions in China.

For more information about China FDI news, please contact tim.lamb@iljgroup.com.

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The JLJ Group

The JLJ Group is a one-stop service provider assisting international companies with their mission to enter and grow in the China market. Our core services include Market Research & Consulting, Corporate Formation, Accounting, Recruitment, as well as Payroll & HR Outsourcing.

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