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Solutions for China Entry & Growth

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## Market Insights

### Opportunities & Challenges in China's Luxury Goods Industry

Individual wealth is growing in China, and with it, the demand for luxury goods. China is emerging as a major growth market for many luxury goods brands (e.g. *Louis Vuitton*, *Lamborghini*), and is expected to become the largest luxury goods market within five years.

However, high growth rates do not guarantee easy money. China's market dynamics can be quite different from traditional luxury markets, and without proper planning and local market knowledge, chances of failure are high. Below are some areas that luxury goods companies need to be aware of:



- **New Consumers of Luxury:** over 50% of luxury goods consumers in China today did not purchase luxury goods four years ago; therefore, it is important for brands to “educate” consumers and to establish brand loyalty incentives

- **Rise of Alternative Channels:** due to high import tariffs on luxury goods, many consumers now prefer buying luxury items overseas or online; traditional high-end boutiques often serve as fitting rooms and venues to build brand awareness
- **Counterfeit Goods:** as counterfeit products in China are becoming increasingly refined, luxury brands must actively monitor and strategically combat counterfeit goods to maintain their brand equity

With a large and growing potential consumer base that is eager to own luxury goods as a symbol of status, China offers foreign luxury brands many growth opportunities. Foreign companies approaching China may consider utilizing a professional market consultancy to help them properly assess the local market and to tailor their growth strategies – essential steps to succeeding in this highly localized and constantly evolving market.

For inquiries about this article, or other work of our consulting division, please email Mark Ray at [mark.ray@jljgroup.com](mailto:mark.ray@jljgroup.com)

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## Tax Updates

### SAT Adjusts Non-Resident Taxpayer Registration Requirements



The State Administration of Taxation recently adjusted how non-resident taxes are managed, further regulating registration and documentation requirements for non-resident taxpayers.

Guoshuihan [2010] No. 290, issued on June 21, adjusted several changes and supplements to the Non-Residential Tax Treatment Management Notice (Guoshuifa [2009] No. 124. Namely, it changes the requirement from “signature of the primary tax authorities” into “signature of the tax authorities which received the tax documentations or applications.” It also defines some of the terms of the original notice, including “identification of taxpayer” and “most recent year.”

According to the updated notice, non-residents can only be exempted from submitting materials if they have submitted those materials to the same tax authority. Those who need to apply for approval or file reports to different tax authorities would have to submit relevant materials separately.

The notice also stipulates that the withholding agent should complete registration procedures in accordance with Article XIII of the Non-Residential Tax Treatment Management Notice, regardless of whether the taxpayer has provided relevant information to the tax authorities. If the taxpayer fails to provide required information to a withholding agent, the agent shall not implement the relevant tax treaty treatment.

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### Housing Fund Base Up in Shanghai

According to statistics released by Shanghai Labor and Social Security Bureau on April 1st 2010, the average salary of Shanghai full-time employees in 2009 was RMB 42,792 and an average monthly salary of RMB 3,566, an increase of 8% compared to 2008.



Following the announcement from government, the employers in Shanghai will see their housing fund contribution increased this July if the salaries of their employees are beyond RMB 9,876 (old cap base) . The above adjustment will be valid from July 2010 to June 2011. The cap of Housing Fund base is three times of the average salary mentioned above. The new cap is calculated as  $3,566 \times 3 = 10,698$ .

The employee's share of social welfare will be increased while the take-home salary will be decreased when gross salary is unchanged. However employees welcome the change as it contributes more to the home loan credit funded by housing fund.

Details	Base before Adjust	Base after Adjust
Minimum Housing Fund Base	960	960
Cap of Housing Fund Base	9,876	10,698
Contribution Ratio	7%	7%

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## China FDI

### Foreign Direct Investment in China Increases 19.6% in H1



China's foreign direct investment (FDI) rose 19.6 percent to US\$51.43 billion in the first six months of 2010 the Ministry of Commerce announced in Beijing on July 15th, 2010.

Liu Yajun, Director of the Ministry's Foreign Administration Department, said that in June alone, China's FDI rose 39.6 percent year-on-year to US\$12.51 billion, the 11th straight month that FDI has grown.

According to the Ministry, the Chinese government approved the establishment of over 12,400 foreign-funded enterprises in the first half of 2010, an increase of 18.8 percent over the first half of 2009. Some 2,739 foreign companies were permitted to set up in China last month, up 8.3 percent from the same period last year.

Despite recent labor unrest leading to raises in minimum wage levels in certain provinces of China, the country remains a top FDI destination. One factor is the positive growth prospects of China's economy. The World Bank estimates China's economy to expand by 9.5 percent this year, driven by major brands eager to get a piece of the country's rising level of consumer expenditure. Another factor for China's popularity is the fact that no other manufacturing destination can match its good infrastructure, large supplier clusters and production capacity.

If you have any questions, please feel free to email to [elena.li@jljgroup.com](mailto:elena.li@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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