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Solutions for China Entry & Growth*

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Market Insights

Staying Current in China

While many foreign organizations will conduct initial market research before entering China, ongoing assessment of the changing market environment and periodic adjustment to growth plans is often neglected once operations begin. However, as the Chinese economy is still developing rapidly and the market is constantly in flux, it is essential for foreign enterprises to stay current on their industries and the markets they serve.

The following are some practices employed by successful foreign enterprises in China:



- **Regular review of current and emerging customer trends:** As customer preferences and needs change especially quickly in China, foreign enterprises must stay alert and monitor these changes; regular reviews can help identify new customer segments and potential challenges, guiding companies to adjust their strategies for new market dynamics
- **Involvement with industry and trade associations:** Industry and trade associations not only provide a

platform for networking with similar companies but also provide access to relevant industry information; additionally, many associations will constantly analyze new regulatory changes and explain their implications for foreign enterprises

- **Competitive benchmarking:** Regular competitive benchmarking not only allows an organization to see where it “stands” in the market but also to identify innovative best practices that can be adopted; it is an important practice to help companies respond to changes in the competitive landscape and to identify underserved market niches

Although ongoing research, assessment and planning may seem daunting, a professional market research & consulting firm can assist foreign enterprises through periodic market updates and regular competitive benchmarking on product/service offerings, organizational practices, marketing mix, etc. – ensuring that decision makers stay current with a constantly updated and accurate view of the market.

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

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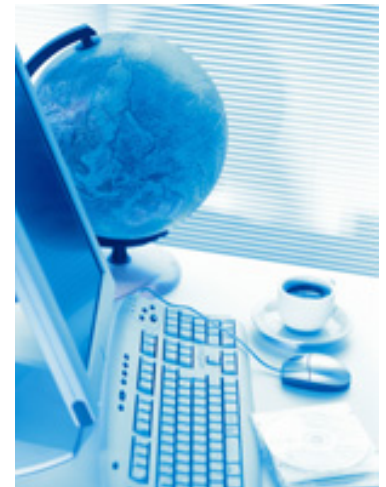
Tax Updates

EVR in China

In order to encourage commercial enterprise registered in China to follow international practices, the Chinese government implemented the policy on Exporting VAT Refund (EVR) from 1985. The policy has since been modified in 1994 and again in 2009, following introduction of new VAT laws.

According to latest regulations on VAT and custom rules, EVR is the government refund for the VAT paid during the purchasing of corresponding goods which are truly exported by Chinese commercial enterprise. The key conditions for companies which are entitled to EVR are as follow:

- Must have GTP (General Tax Payer) status
- Must be able to provide corresponding purchasing VAT invoice for exported goods
- Must have already received the corresponding trading fund on exporting upon applying for EVR



Considering above mentioned conditions, relevant regulations and our practical experiences regarding EVR operations, we would like to highlight several important matters for newly established commercial enterprises:

- Only the exports which are processed AFTER the company got approval for GTP application are eligible for EVR
- Exports processed before the company obtained GTP status will be taxed at 3% on exporting revenue
- Corresponding VAT invoice for goods purchasing must be issued AFTER company obtained above mentioned GTP status
- Only the company with ‘export’ in its title is eligible for EVR. If it exports through a trading company, the trading company will be eligible for EVR instead

EVR is important for commercial enterprises who deal with exporting since it affects profitability and cash flow financing of such companies. Business owners should be very careful on the conditions and details on specific processing for EVR application from incorporation to daily operations to ensure that all their exports are able to get EVR smoothly.

For more information, please email to henrry.ren@jljgroup.com

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Human Resources

Retention after Recruiting

2008 to 2010 were challenging times for HR professionals. After the financial crisis hit in 2008, companies cut payroll to reduce costs. However, when economic conditions recovered in 2009, companies had to rapidly resume recruitment to meet customer demand.

In a world where labor mobility is taken for granted, how can companies work to retain talents after successfully recruiting them? Based on our experience we recommend the following guidelines:



- **Re-emphasize team spirit**

Companies should provide trainings in teamwork, corporate culture, and invest in teambuilding activities. Employees can be encouraged to align their personal growth with corporate development so that everyone works toward the same goal.

- **Employee motivation programs**

With reference to Maslow's hierarchy of needs, retention programs should be tailored to different groups of employees. For front-line employees who work to satisfy their physical needs, a safe and comfortable working environment has to be provided; for senior management who might place more value on self-realization, challenging work and room for personal development would be more attractive.

- **Apply HR management techniques**

- Have trainee programs in place that energize and educate employees.
- Develop work ethics and have a set of standards to implement them.
- Do not 'save cost' for senior positions. Employing credible senior professionals insures proper implementation of management decisions.
- Establish an internal HR database. Collect information and compile employee performance profile so promotion decisions can be properly justified.

- **Provide a good working environment**

A good working environment does not only mean safe and comfortable working conditions, but also a reasonable work load and fair opportunities.

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China FDI

Choosing to Establish an Offshore Holding Company



With Foreign Direct Investment in Mainland China growing 22% in the first five months of 2010, foreign investors will want to consider the benefits of using an offshore holding structure as an investment vehicle into China.

Historically Hong Kong, with its mature rule of law, low tax rates and unique relationship with Mainland China, has been a favored destination for offshore holding companies. As Mainland China has begun to embrace a “substance over form” approach to regulating offshore holdings of domestic assets, foreign investors need to be aware of the limitations of using an offshore holding structure for their Mainland China investments:

- **Effective management rule:** If State Administration of Taxation (SAT) deems the offshore company’s day to day management occurs within Mainland China, the offshore company may be subject to corporate income tax in Mainland China
- **Reduced tax rate exclusions:** Offshore holding companies with no substantive business activities may not qualify for reduced withholding tax rates as per tax treaties between the jurisdiction it is located and Mainland China
- **Indirect transfer of assets:** an investor that has structured its equity interest in a Mainland China enterprise through an offshore holding company could be subject to an additional tax burden within China, in the event that the investor sells interests in the offshore company

While these restrictions do decrease the appeal of using an offshore holding company for China investments, it does not exclude their use outright.

If you have any questions, please feel free to email to tim.lamb@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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