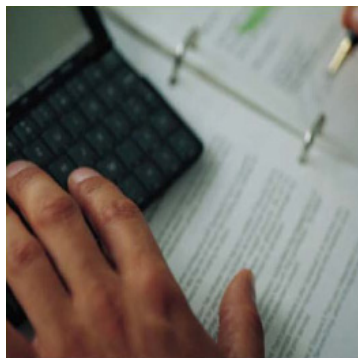


*Brought to you by The JLJ Group
Solutions for China Entry & Growth*

Welcome to JLJ's e-newsletter - **China Focus**. Here, we hope to share with you the latest regulatory updates and useful information relevant to China's business environment. This e-newsletter is brought to you, our valued network, as part of JLJ's value-added service.

China FDI

2008 Annual Examination Have Started... Are you Ready?



The time has come for all foreign businesses to have their business "checked". All WOFEs registered before 31st Dec 2007 will need to complete an annual examination between 1st Mar 08 and 30th Jun 08. The process involves a financial audit as well as submission of relevant documents to seven Chinese authorities for examination.

A joint examination - whereby all seven Chinese authorities will gather at a common office - will be held between 14 Apr and 23 May. Foreign companies can grab the opportunity to get their documents reviewed by the relevant authorities all at once during this joint examination period. While the process is quite niggling for WOFEs, Representative Offices will only be required to complete a financial audit by 30th Apr 08.

Missing an annual examination may incur some penalty charges while missing it for two years will cause the business license to be revoked.

For more information, please email to salina.leong@jljgroup.com.

This Issue Presents

[China FDI - 2008 Annual Examination Have Started... Are you Ready?](#)

[Market Insights - Market entry via China's Tier 2 cities vs. Tier 1 cities](#)

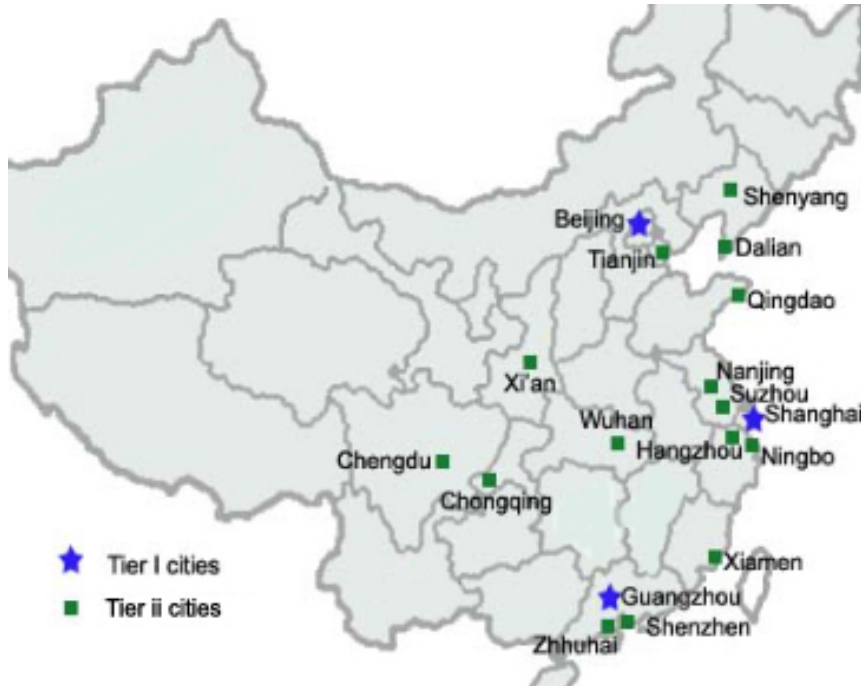
[Human Resource - Mian Zi - a Hindrance to Reference Checks](#)

[Tax Updates - Merged and Acquired. What about taxes?](#)

[Feedback | Subscribe Past Newsletter Issues](#)

[Back to Top](#)

Market entry via China's Tier 2 cities vs. Tier 1 cities



Historically most new foreign companies entering the China market did so by first establishing a presence in the Tier 1 cities of Beijing, Shanghai and Guangzhou, and then subsequently expanding into Tier 2 and 3 cities.

However, more and more new China entrants are now considering entering via Tier 2 cities - in order to avoid the fierce competition in Tier 1 cities yet benefit from the market potential and lower costs in second tier cities. Though Tier 2 cities account for only about 10% of China's population, they account for around 50% of the country's total FDI in 2007. Second tier cities are manufacturing more and its consumers have increasing disposable incomes - all representing potential opportunities for companies.

Despite the apparent benefits, a Tier 2 entry strategy is not necessarily suitable or recommended for all companies. The feasibility of a Tier 2 entry strategy (as opposed to Tier 1) would ultimately depend on the industry they belong to as well as company specific considerations, including product type, company size, financial resources, type of target customers etc.

New China entrants considering a Tier 2 entry strategy should conduct thorough research and analysis of the actual market potential for their company. The choice of which second tier city to enter is also an important one, as these cities have varying degrees of economic development and market maturity.

For more information about Tier 2 entry strategies please email to katja.friedrich@jljgroup.com.

[Back to Top](#)

Human Resource

Mian Zi - a Hindrance to Reference Checks

Reference check in China - where the traditional Chinese value of Mian Zi or "face" prevails - has never been an easy task. Unlike other forthcoming-natured Western communities, Chinese are more reserved with their comments and discussing the "not-so-goods" of others can be perceived as shaming that person. Despite the challenge, reference check has increasingly been adopted by companies in China, as the competitive landscape here leaves little room to err on candidate choice.

Here, our search consultants offer some tips to help you extract reliable and valuable remarks through your reference checks.



Speak to more: Don't limit to just one or two names provided by the candidate. It's easy to get hold of other people whom the candidate has worked with before - direct supervisors, indirect supervisors, peers, subordinates, etc.

Tactically probe: Extend all your sensing probes, watch out for clues of reservation and ask specific questions that draw revealing comments (eg. actual examples of how the candidate responded in various work scenarios.)

Assure Confidentiality: Perhaps most importantly, Chinese referees need to be assured that their comments will be kept strictly confidential. Fear of awkward relationships will otherwise refrain them from sharing truthfully.

Apart from reference checks, background checks are also often conducted to verify the candidate's employment history, educational and professional credentials as well as criminal and civil records.

For more information, please email to rosewu@huijiechina.com.

[Back to Top](#)

Tax Updates

Merged and Acquired. What about taxes?

Mergers and acquisitions (M&A) have become more common these days in the China market where stiff competition narrows margins of many foreign businesses. Many companies, caught up with restructuring investment strategy, production management and marketing plans, often overlook their tax planning, only to realize subsequently that the M&A had robbed them of significant preferential tax treatment that they enjoyed in the past.

The adjustment of the tax policies depends on the status of the tax benefits applicable to the entities prior to the merger or acquisition. The following three scenarios may apply.

1. Preferential benefits for both entities have expired - new entity formed after M&A will not be entitled to further preferential tax treatment.
2. Preferential benefits for both entities will expire at the same time - new entity formed will continue to enjoy the preferential tax treatment to the expiration date.
3. Preferential benefits for the two entities differ - new entity will need to differentiate its business operations and identify areas which are eligible for preferential tax treatments. To achieve this, the entity is required to establish separate accounting books for its different business operations. Entities unable to do so may calculate its tax benefit eligibility based on one or more of the following ratios - annual business revenue ratio, costs and expenses ratio, equity ratio, headcount or wage ratio.

For more information, please email to salina.leong@jljgroup.com.

[Back to Top](#)



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.

Send us your business enquiry at info@jljgroup.com or find out more about our services at www.jljgroup.com.

The JLJ Group

Suite 603-605 Oriental Center
699 Nanjing West Rd / 31 Wujiang Rd
P.R. China, Shanghai 200041

Tel: +86 21 5211 0068

Fax: +86 21 5211 0069

Email: info@jljgroup.com

Website: www.jljgroup.com

Copyright © 2008 The JLJ Group