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## Market Insights

### China's 12th Five-Year Plan: Key Areas in Healthcare Industry

*This article is the fourth in a series of articles covering several industry specific Five-year plans.*

China has 1.4 billion people of which 160 million are above the age of 60, which is the key demographic utilizing medical services; by 2025, the number of people over the age of 60 is expected to reach 300 million. Additionally, with over 80% of medical services concentrated in urban centers, there are over 100 million people in rural areas that do not have basic access to medical care. These two critical statistics have helped push the central government to focus on healthcare system reform.

Therefore, in 2009 the central government announced an RMB 850 billion three-year healthcare reform package that included:

- Improve healthcare facilities (e.g. hospitals and clinics, especially in rural areas)
- Universalize access to basic healthcare
- Revamp the pharmaceutical supply system



The 12th five-year plan further expands the 2009 healthcare package, putting further emphasis on reform with specific policies and funding, for example:

- **Biotechnology** - now considered a Strategic Emerging Industry (SEI) by the central government, there is an effort to build this into a pillar industry with plans to inject RMB 12 billion into research & development
- **Pharmaceutical consolidation** - with over 13,000 pharmaceutical wholesalers, the central government has plans to consolidate the industry and create 3 large nationwide pharmaceutical groups and approximately 20 regional pharmaceutical companies
- **Increase medical insurance coverage** - Currently, 95% of the population has basic insurance coverage; the target is to reach 100% by 2020 and raise reimbursement rates for patients

Opportunities may exist for foreign companies in China's healthcare sector, especially in pharmaceuticals, more than ever as the Ministry of Commerce (MOFCOM) seeks to increase foreign investments in pharmaceuticals, and that China is expected to be the world's second largest medical devices market, estimated to be valued at RMB 360 billion by 2020.

However, for companies approaching the China market, it is recommended that the company fully

understand the market dynamics and all risks and benefits associated with it before making any significant investment decisions.

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

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## Tax Updates

### Shanghai to Lead Pilot Tax Reform



Last month, China's State Council had announced a pilot tax reform program ("the pilot"), which will be implemented in specific regions and industries. The Pilot, to be first launched on January 1st, 2011 in Shanghai, is designed to resolve issues with double taxation and expand the development of the value-added tax (VAT) system with VAT gradually replacing the function of Business Tax.

On November 16th, 2011 Circular 110 and 111 were jointly issued by China's Ministry of Finance (MOF) and the State Administration of Taxations (SAT) to elaborate on the pilot's implementation details. While these circulars do not cover all related matters, they do serve as guidelines to clear up some issues.

Circular 110 introduces the VAT reform pilot general plan. The pilot will be first implemented in Shanghai for certain business types and with different rates, these include:

- Leasing of moveable and tangible goods: 17%
- Transportation and construction services: 11%
- Other modern services sectors: 6%

Businesses in Shanghai who's activities due not fall in those categories will be unaffected. Only after conditions are mature will the reform be extended nationwide and cover additional sectors.

Circular 111 specifies the rules for the Shanghai VAT reform pilot implementation. The circular goes into more detail on the scope of industries and application of VAT, guidance on deductions for input VAT, and how current business tax incentives will be preserved. In addition, the circular stipulates that the rules for input VAT credit, simplified taxation method, the point of taxation, and classification of tax payers will remain unchanged.

While the pilot program is generally well received and should alleviate issues with the current system, there are some caveats. Business who are able to recover VAT under the current system will see an immediate benefit, but those with limited input VAT may benefit less if their new VAT rates are higher than current business tax rates. To prepare for the pilot reforms, companies should engage a tax professional to best plan their strategy.

To learn more about the upcoming pilot reforms, contact [andrea.cristancho@ijigroup.com](mailto:andrea.cristancho@ijigroup.com).

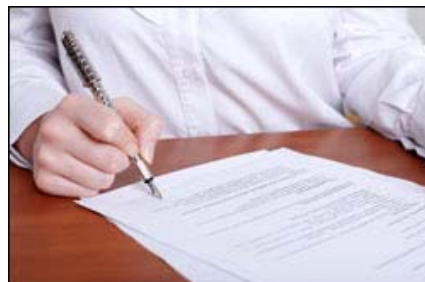
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## Human Resources

### Case Study: Reassigning an Unqualified Employee

In most cases, any adjustment to a labor contact and work conditions requires mutual agreement between the employer and the employee, only then may the contract may be altered in writing. However, there are a few exceptions to be aware of, such as in cases of reassigning an unqualified employee to a new position. The following is an actual case in which an employee was deemed unqualified, and as a consequence the employer wished to reassign them.

Mr. Zhang was recently hired as a packaging machine operator and signed a three-year contract with his employer. Following a



6 month probation period, he began to work independently. However, over the following month he failed to fulfill expectations and made several crucial mistakes.

The company decided that rather than try to retrain and improve Mr. Zhang's performance in his position as machine operator, they would instead transfer him to another position with duties that are relatively easy compared to his original task. The company then sent Mr. Zhang a written "*Position Adjustment Notification*", informing him to report to the new position. Mr. Zhang felt the employer did not have the right to reassign him. He did not accept the notice and chose not to report to the new position or go to work at all.

On the second day of absence, the company sent an official written notice demanding Mr. Zhang's attendance at work. However, after no reply and 3 days of absence, he was found to be in violation of company policy and the only remaining option was to terminate the employment relationship.

In this case the employer had the legal right to reassign their employee based on performance, and ultimately dismiss the employee for failure to comply. According to article 40 of the *Labor Contract Law of China*, "on the occasion that the employee is not qualified for the current position, the employer has the right to make reasonable adjustment."

This regulation applies well to the case above. As opposed to other contract adjustments subject to mutual agreement, reassigning an employee based on a lack of ability in performing current duties is within the legal rights of an employer, and requires no employee agreement. Nevertheless, employers should note that reassignment not based on poor performance and without mutual agreement is illegal.

For more information on Labor Contract readjustments in China, email [vicky.chen@ijigroup.com](mailto:vicky.chen@ijigroup.com).

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## China FDI

### China's "Silicon Valley" to Receive Investment Boost



Zhongguancun National Independent Innovation Demonstration Zone, China's "Silicon Valley" will be part of the central government's scheme to develop modern services industries. Over the next three to five years, Beijing plans to invest 1.5 billion RMB into the zone.

The Finance Bureau of Beijing recently issued the "Management of the Pilot Supportive Fund for Modern Service Development in Zhongguancun National Independent Innovation Demonstration Zone". The fund will be available for use in several tech-based service sectors including:

- Emerging information technology based service industries
- E-commerce and modern logistics industries
- Technology service industries
- Energy-saving and environmental protection industries
- Additional sectors listed in the government's annual guidelines

Any company registered in the Zhongguancun zone which is involved in the above sectors can apply for the use of the fund. The following are the primary methods of fund use:

- Subsidies to support public services, brand promotion, market expansion, and professional training. Such subsidies should not exceed 10 million RMB per project.
- Private equity funds used to support emerging industries, innovation projects and financing projects. Private equity funds should not exceed 50 million RMB per project.
- Subsidized loans for the support of emerging industries and innovation projects. Such loans should not exceed 10 million RMB per project.
- Rewards for support fast-growing and green projects. These should not exceed 20 million RMB per project.

In the past two decades the Zhongguancun zone has attracted nearly 20,000 new and high-tech companies and is home to over a thirty top colleges and universities, including Beijing and Qinghua University, as well as over 200 national and provincial research institutes. Tenants of the zone include top international companies with nearly 200 branches and R&D centers of companies in the fortune 500. For 2010, the total revenue for companies in the zone reached 1.59 trillion RMB.

For more information about Zhongguancun National Independent Innovation Demonstration Zone, contact Tim Lamb [tim.lamb@jljgroup.com](mailto:tim.lamb@jljgroup.com).

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