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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.

This Issue Presents

Market Insights - [Identifying suitable industry partners in China](#)

Tax Updates - [Circular 121: Changes in Individual Tax Regulations](#)

Human Resources - [The development of multinational R & D Center in China and its impact on human resources](#)

China FDI - [Deferred injection of registered capital for Foreign-Invested Enterprises](#)

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[Past Newsletter Issues](#)

Market Insights

Identifying suitable industry partners in China



Although much of the world faces economic recession, China remains one of the most active markets for foreign investment and is even becoming more open. For this reason, many companies are looking to enter China, with many looking for local partners.

In many industries, the market is extremely fragmented with numerous and diverse players; thus, finding the right partner can be daunting. Therefore, it

is important to develop criteria to identify suitable partners. Although criteria are unique for each company, typical ones include:

- **Strong Network** - Strong networks, especially relationships with government, business associations, etc., are in most cases quite important when doing business in China
- **Industry Expertise** - the China market has unique attributes different from other markets; a suitable partner can bring local industry expertise and knowledge
- **Similar Company Cultures** - business and company culture can often be a point of conflict among partners, inhibiting growth; similar business cultures will help the partnership succeed
- **IPR Protection** - especially important for technology or IP-driven companies; although difficult to gauge, it is important that any potential partner respect IPR protection

Companies considering entering the market will face specific challenges and have unique needs regarding potential industry partner(s). Therefore, it is important that they properly scan the market and screen potential partners who match the developed criteria.

For more information on finding suitable Industry partners in China, please email Mark Ray at Mark.Ray@jljgroup.com

Circular 121: Changes in Individual Tax Regulations

The Chinese government recently released Circular 121 that affects how employees will see their additional '13th month salary' taxed. The 13th month salary will no longer be treated as an additional month and taxed accordingly. Although not clearly stipulated, the 13th month salary might be combined with the 12th month salary leading to a higher tax rate. Directors also see themselves directly affected by the new Circular. Fees paid to Directors that are also employees of the company will be taxed as a part of their salary, which may also lead to a higher marginal tax rate. Directors collecting fees that are not employees of the company are unaffected by this change. The last group addressed in the circular are 'Overseas Chinese'. They are now entitled to a higher tax deduction of RMB 4,800 if they meet the following criteria:



- Have obtained permanent residency and lived in a foreign country for two years with a minimum stay of 18 months; or
- Have lived in a foreign country continuously for 5 years without a permanent residence permit but having stayed overseas at least 30 months during that time

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Human Resources

The development of multinational R & D Center in China and its impact on human resources

In the past, the impression of mainland China to the world was that of a manufacturing centre. In the late 1980s, enterprises from all over the world gradually moved their manufacturing factories to China due to the advantage of a cheap labor workforce.



With the 21st Century, human resources in China is increasingly subject to global concern. The early stages saw software R & D Centers of the IT industry such as Motorola or Microsoft being established. This was followed by other industries such as integrated industrial MNCs, like GE, Emerson, or Ingersoll-Rand, pharmaceutical firms such as AstraZeneca, GlaxoSmithKline or Novartis and consumer goods MNCs such as , P&G, J&J or PepsiCo. They all established their district/ regional - level and/or global - level R & D Centers.

The accumulation of so many different research institutes creates great interest in professional scientific and technical personnel. In the past, many professionals were seeking management roles whereas now the picture has changed and scientific and technical personnel value their occupations better and therefore seek a career in their fields.

Talent recruitment in the R & D field works through long-term relationships. Many enterprises maintain close contact with local and global universities and research institutes to support the talents development and research projects. Previously, executive search firms and the HR departments of companies have only focused on recruiting talent from the same professional background whereas now the search concentrates more on the 'best fit' for particular positions.

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Deferred injection of registered capital for Foreign-Invested Enterprises



Shanghai Administration of Industry and Commerce (SHAIC) recently issued an interim provision, "Deferred injection of registered capital for Foreign-Invested Enterprises" providing flexibility to Foreign Invested Enterprises (FIEs) with their registered capital injections. The aim of this provision is to assist FIEs encountering funding problems due to the economic downturn. The new provision allows newly-formed FIEs to defer the timing for its initial injection by two years as well as increase the timing to complete 100% of its capital injection by one year. FIEs who have already completed their initial injection but have also encountered problems with funding may apply for an extension of up to three years to complete their registered capital injection. To qualify, an FIE must meet the following criteria:

- New or law-abiding foreign-invested companies currently operating other than 'Investment holding company' and
- Cannot be funded on schedule in accordance with the provisions of the Articles of Association due to the financial crisis

For more information, please email to tim.lamb@jljgroup.com

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.

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

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