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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.



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Market Insights

Opportunities in China's Wastewater Treatment Industry



In 2008, China generated 57.2 billion tons of wastewater, and although there are nearly 1,600 municipal wastewater treatment plants (WWTP), the overall treatment rate is less than 70% (vs. 95% for developed countries). This is in part due to many WWTPs operating under-capacity as a result of limited operating capital or poor networks (piping).

The central government, however, is stepping up its efforts to improve treatment rates, continues to build and upgrade facilities and is using a range of regulatory and economic instruments to improve China's wastewater industry, including:

- **Five-Year Plans** - more than 1,000 new WWTPs (investment of RMB 330 billion) will be constructed by then end of 2010; focus on wastewater treatment is expected to continue in the 12th Five-Year Plan

- **RMB 4 Trillion Stimulus Package** - RMB ~370 billion earmarked for rural infrastructure including water supply; RMB ~350 billion earmarked for environmental protection, including wastewater treatment
- **Improved Regulations** - regulations are being more strictly enforced and fines are levied on firms contaminating rivers and lakes; additionally, all cities are to levy wastewater treatment tariffs to help fund operation and construction of WWTPs, etc.

Also, thanks to government investment in the wastewater industry, opportunities for foreign companies exist, especially for public-private partnerships in Tier 2 Cities. However, competition for projects and components is fierce, sometimes involving an open bidding process. It is recommended that potential entrants fully understand the market conditions, opportunities, and barriers when approaching the market.

For inquiries about this article, JLJ's wastewater treatment industry report, or other work of our consulting division,, please email Mark Ray at Mark.Ray@jljgroup.com

Tax Updates

About the Recent Notice for Company Benefits for Management Staff

The notice for the control of staff benefits in financial management, which was recently issued on November 25, 2009, has attracted the attention of many. The benefits are the additional payments for salary which is the reimbursement of staff benefits. It should vary by amount and be paid by cash. It will include the following:

- Staff health care and commodity payments by cash and benefits, such as medical expense during business trips, health check expenses and the allowance for the mess hall, meal expenses and heat allowances, according to the region,
- Equipment fees, including depreciation and maintenance fees,
- Funds to relieve staff difficulties,
- Retirement expenses,
- Funeral pension, and other settlement expenses



When a company supplies staff transportation, housing and communication allowances, it should pay attention to the following. When a company supplies these allowances monthly, it will be regarded as salary, whether paid by cash or by invoices from staff. It is also important to note that the company cannot construct housing or pay property management fees for staff, nor can it pay for staff amusement, travel, or entertainment purchases. The company can pay for staff business trips or business expenses which are not regular monthly expenses.

For example, for an employee of a foreign company with a salary of RMB 6,500, the IIT should be $(6,500 - 4800 \times 10\% - 25) =$ RMB145. According to this notice, however, his salary would be RMB7,000, and his IIT would become RMB205 $[(7000 - 4800) \times 15\% - 125 = 205]$. Thus, the IIT increases by RMB60. While this change is not so large for an individual person, it is more significant for a company's benefit expenses as a whole.

For more information, please email to lynn.lee@jljgroup.com

End of Year Recruitment



The end of year is approaching, as well as the Christmas holidays and the forthcoming Chinese New Year. At this time, most companies slow the process of recruitment. At the same time, the number of job seekers generally stays low as well, as employees expect annual bonuses. Thus for HR managers, and particularly those responsible for recruiting, the end of the year is quite a tough time to fill vacancies. This is especially true for very important jobs within the company, which are always difficult to fill, as there are less candidates with the motivation to switch jobs.

Furthermore, even candidates with a signed letter offer may change their minds because of other better opportunities or because of internal promotions. HR will therefore face two problems: that of fulfilling vacancies with less resources, and that of keeping successful candidates who are scheduled

to be on board after a long period of time, especially for positions on the management level or with special talent.

At this critical time, an executive search firm could be utilized most effectively. Finding the right person for difficult vacancies is of course the strength of a search firm. Furthermore, this service is also quite useful in communicating with future employees and in determining and maintaining their motivation. Professional executive search consultants are capable of contacting candidates in a frank and friendly manner, thus conveying messages from future employers. One suggestion to HR managers: letting the future employee be more involved, such as in warm-up preparations, will greatly facilitate future handovers and motivation checks.

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China FDI

Foreign Invested Partnerships

With the recent release of China's State Council Order Number 567, foreign investors, including investors from Taiwan, Macau and Hong Kong, will be eligible to establish foreign invested partnerships within Mainland China. Under the new Measures, foreign investors will be allowed to establish partnerships with other foreign investors, local investors or a combination of both.

The new Measures should provide investors with greater flexibility with the structure of their legal entity within China, particularly for private equity and venture capital firms wishing to establish local currency funds. Furthermore, foreign invested partnerships will not require approval from the Ministry of Commerce and may register directly with the Administration of Industry and Commerce, unless otherwise specified in the foreign investment guidelines; which may eventually simplify the registration process.

However, the Measures do not include detailed implementation rules that will most likely be issued before it comes into effect on March 1st 2010, requiring most investors to wait for further clarification. As with most new forms of investment vehicles introduced in China, the actual implementation at the local level will determine if foreign invested partnerships are a viable option for market entrants.

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



2009 China Wastewater Treatment Report now available

We would like to inform you all that JLJ's new industry report on the *Wastewater Treatment Industry in China* is **NOW** available!

For more information please click [here](#) to read the pdf version or email Katja Friedrich at Katja.Friedrich@jljgroup.com



Shanghai International Marathon 2009

For the third year in a row, JLJ staff from the Shanghai office took part in the 2009 Shanghai International Marathon, on November 29th 2009. Once again, we had pleasant weather and everyone enjoyed this team-building event.

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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