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Solutions for China Entry & Growth*



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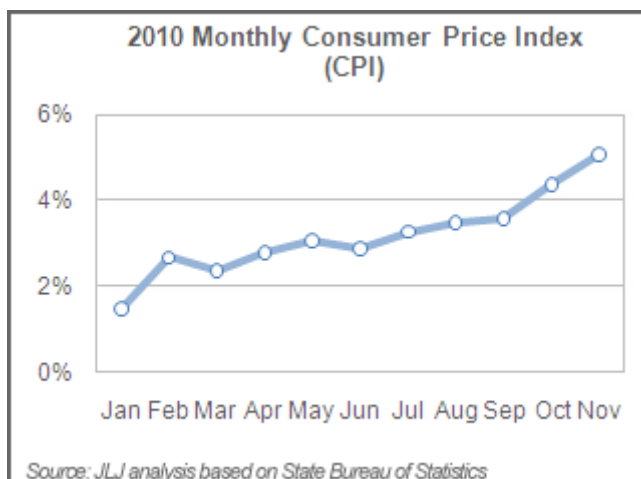
Market Insights

2010 China Year in Review

Compared with the overall global economy, China has experienced strong growth in 2010, and it is expected to officially replace Japan as the world's second largest economy by the end of the year, reaching an estimated nominal GDP of US\$ 5.3 trillion (~10% growth from 2009).

In addition to continuing rapid growth, 2010 also brought several new developments that affect foreign enterprises:

- **Strong inflationary pressure** - due to loose monetary policy, monthly inflation has risen rapidly; controlling inflation is one of the government's top priorities in 2011
- **Continued foreign investment** - drawn by China's continued rapid growth, 2010 FDI inflow is expected to reach US\$ 103 billion (14% growth from 2009); however, the government is particularly concerned about inflows of 'hot money'
- **Rising worker wages** - responding to several large factory strikes, minimum wages were raised across China, increasing the cost of doing business (e.g. annual minimum wage in Beijing rose ~20% from US\$ 1400 to ~US\$ 1700)



Looking to 2011, the Chinese government will be announcing its new 12th Five-Year Plan (most important guideline for China's economic development) in May 2011. This plan is widely expected to continue encouraging high-tech & high value-added industries such as new / renewable energy.

As China changes rapidly, foreign enterprises seeking to enter or grow should consult a professional service provider to fully understand the newest developments and their implications.

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

Preferential Tax Policies for Technological-advanced Service Enterprises



On November 5th, the Chinese government issued a Circular on Tax Policies for Technologically-advanced Service Enterprises, specifying preferential enterprise income tax (EIT) policies for advanced technology service enterprises.

Outsourcing service enterprises, which are qualified as technologically-advanced, can be subject to a preferential EIT rate of 15% rather than the unified 25% rate. This Circular was retrospectively effective as of July 1, 2010 and will be effective until December 31, 2013. Moreover, it is applicable to advanced technology service enterprises that are located in 21 cities, including: Beijing, Tianjin, Shanghai, Chongqing, Guangzhou, Dalian, Shenzhen, Wuhan, Harbin, Chengdu, Nanjing, Xi'an, Jinan, Hangzhou, Hefei, Nanchang, Changsha, Daqing, Suzhou, Wuxi and Xiamen.

In addition, the education cost, that does not exceed 8% of the company's total salary outcome, can be removed from the calculation of its total income. The amount that exceeds 8% will be carried forward to following tax years.

The circular specifies the qualification requirements for technologically-advanced Service Enterprises, as well as administration measures.

For more information about Enterprise Income Tax, please email to tim.lamb@jljgroup.com

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Human Resources

Recruiting Best-Fit to Achieve Business Needs

Have you ever heard the saying "Your greatest assets are your employees"? As a matter of fact, an important phrase is missing in this saying, and that is 'best-fit'. 'Best-fit' employees are your greatest assets and for that reason, who you hire is a vital decision.

The following case study demonstrates the importance of choosing the right employees. The chairman of an American manufacturing company was frustrated by his recruiting team not being able to attract the 'best-fit' talent for the company's operation in the western part of Jiangsu province. After carrying out a market talent mapping, as well as appraising manufacturing plant Managing Director, it became clear that the following procedures were absent during their recruitment operation:



- First, describe the goals, objectives, vision and mission and most importantly, the business needs
- Second, determine the profiles that would satisfy the business needs. What type of person would compliment the current team? What type of personality and level of accomplishment does the team need? Does the team need a pace-setter or someone who is detailed oriented?

- Third, once the profiles are clearly determined, the recruiters may begin to identify the 'best-fit' team and turn the goals into reality. Make sure the job descriptions capture the business needs.

A company cannot afford to retain in-house recruiters that don't attract the right people, neither could a company afford to retain headhunting service providers, who don't deliver the 'best-fit'. The opportunity cost is huge, especially in fast growing China market. Those organizations, that can commit to fill in the above procedures as derived from the above case study, will have better chances of sourcing and retaining 'best-fit' in their team, and thus easily achieve their business needs.

For further information, please contact Kennie Yan from JLJ's recruitment division at kennie.yan@jljgroup.com

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China FDI

Costly Bank Account Opening for SMEs



Foreign SMEs (and domestic SMEs) are facing discriminating treatment from banks, which includes increased bank account setup and maintenance fees, when compared to larger corporate clients.

In order to open an RMB account, companies are required to pay a setup fee, online banking fee, maintenance fee, as well as flat fees for account permit (about RMB 200) and electronic payment cipher instrument (about RMB 520). Setup fee varies between different banks. While ICBC charges RMB 350, China Construction bank could charge up to RMB 2,000. Online banking fees ranges from RMB 500 to 1,200 depending

upon the bank. The total cost of opening an account alone could reach RMB 3,000 to 6,000.

In addition, banks have tightened the documentation requirements of a newly opened RMB account. Many now require the submission of the legal representative's original passport, as well as a physical examination of the office location. These policies changes can hinder a foreign invested SME's market entry if the newly established company's legal representative is not based in China.

For more information about bank account opening procedures, please contact tim.lamb@jljgroup.com.

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The JLJ Group

The JLJ Group is a one-stop service provider assisting international companies with their mission to enter and grow in the China market. Our core services include Market Research & Consulting, Corporate Formation, Accounting, Recruitment, as well as Payroll & HR 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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