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Solutions for China Entry & Growth*

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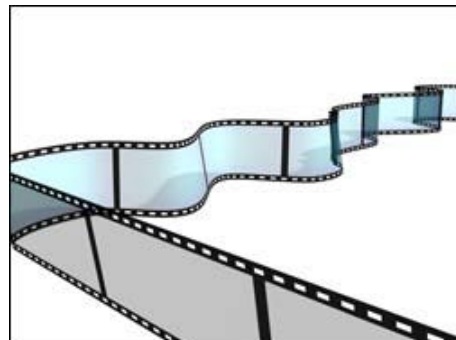
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Market Insights

Opportunities and Challenges in China's TV and Film Industries

China's TV and film industries are rapidly expanding, experiencing large revenue growth rates while enjoying preferential government policies as part of China's 12th five-year plan. For example, China's TV broadcast penetration rate is approximately 97% and overall TV broadcasting revenues exceeded US \$33 billion in 2010, while box office revenues for films grew 64% from 2009 to 2010, reaching US \$1.5 billion.

With China's entrance into the WTO, there are more opportunities for foreign investment and decreasing barriers to entry (e.g. increasing the number of foreign films allowed to be imported each year). Additionally, the 12th Five-Year Plan aims to make cultural industrial production value account for 5% of GDP by 2015, up from the current 2.5%.



However, the film and television industries are strictly controlled by the government and there are restrictions on the types of foreign entities allowed (e.g. distribution is forbidden while production is restricted). Additionally, foreign investors face challenges in terms of copyright protection and government censorship. Also, especially for television, competition from Asian players is fierce; dramas from Hong Kong, South Korea, and Taiwan are already well established.

Although government restrictions and quotas exist for foreign players (e.g. import and broadcast time restrictions), the success of players from Korea and Hong Kong demonstrate that there are opportunities for foreign/imported productions as well as jointly produced films and TV programs.

Companies potentially interested in China's TV and Film industries should first understand China's market dynamics and options available for investment before making significant commitments.

For more information about finding suitable partners in China, please email Mark Ray at mark.ray@jljgroup.com.

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Tax Updates

Reduction on Import Taxes in China



As of July 1st, China will decrease import taxes on certain energy products and raw materials in order to maintain a balanced trade, according to the Ministry of Finance. Good news for manufacturers, energy producers and transportation companies who are facing rising input costs. This reduction in import taxes also aids China's goal to double its imports by 2015.

The ministry's latest import tax reduction list is comprised of 33 items, which includes fuels, such as diesel and aviation fuel; metals, such as zinc ingots and nickel scrap; and fabrics, including synthetic and cotton textiles. Moreover, earlier this

month the National Development and Reform Commission announced that coal's Value-Added Tax (VAT) and port related fees will also be reduced.

Finished retail goods are receiving attention for possible reduction in import taxes as well. In order to sustain growth in imports and combat the trend of Chinese shoppers going overseas to shop, the government is considering import tax cuts on luxury goods, cosmetics, tobacco and alcohol. Such a move would certainly be welcomed by goods producers abroad, and retailers operating within China. Though Ministry of Commerce spokesman Yao Jian said earlier this month that reducing import duty on luxury goods is only "a matter of time", key details have not yet emerged.

Average import taxes have dropped from 15.3 percent to 9.8 percent since December 11, 2001 when China joined the World Trade Organization. China's import taxes on luxury goods are generally between 15% and 25%, some as high as 50%. According to the General Administration of Customs, total imports this year value RMB 689.41 billion (through May) a 29.4% increase from the same period last year.

For more details about China import tax reduction, please contact henry.ren@ijigroup.com.

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Human Resources

Overcoming Common Pitfalls of Recruitment

Recruiting talent can be a tricky process, one where companies can easily find themselves in common pitfalls. Succumbing to these pitfalls can affect a company's reputation and often jeopardize post employment planning. Below are 3 key areas to be mindful of; and if the advice is taken, can help a company save time and trouble:

1. **Create a direct/candid job description post for the right candidate**

A job post in the classifieds should be frank and embellishment free. When recruiting for a specific position, the position should of course be presented in a positive light, however steer clear of the 'Pull Factor', that may be interpreted at times as misleading or even deceptive. You may end up with a successful and talented candidate, but their desire to join your company may be based more on expectations that will not be fulfilled, and retaining that employee will become a major challenge.

2. **Ask the right questions**

When recruiting talent a standard set of high quality questions should be developed that are suitable for all candidates for a particular position. The questions should be designed to focus on professional abilities, experience, education, etc., and not on personal matters such as marital status. With a set standard in hand, it will be much easier to efficiently and reliably assess the qualifications and merits of the candidates, which will lead to the best possible hire.



3. Settle everything before providing an offer

Before making an employment offer a company must ensure they have all the necessary information about the candidate and that all applicable conditions for employment are clear. References, health check results, and other relevant documents should be in the hands of the employer before any offer is made to a candidate. If for any reason the offer must be withdrawn, the withdrawal should be made before the applicant provides his final answer.

For more information on how to overcome common pitfalls of recruitment, please contact Kennie Yan at kennie.yan@iljgroup.com.

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China FDI

China Permits Foreign Direct Investment Using RMB



The People's Bank of China, China's central bank, announced earlier this month that a pilot program will be launched allowing foreign investors to make investments into Mainland China in RMB. This is the first time China has issued specific rules of this kind that allow for RMB raised overseas by foreign companies to be invested back into China.

In the program, invested funds will be allowed to be used for formation of new entities, mergers and acquisitions, capital injections, increasing stakes in subsidiaries and provide loans. In addition, the trial program is also expected to further increase the number of RMB-denominated bonds, following the example of McDonald's and Caterpillars RMB-denominated bonds released earlier this year. There will be some limitations on using RMB from foreign sources to invest in certain sectors, though the central bank has not yet given further guidance on which sectors will be prohibited. In addition to the usual process for investment into China, RMB investments will be subject to final approval by the People's Bank of China on a case-by-case basis.

The purpose of the new program is two-fold. The first is that China aims to internationalize the currency and make it more tradable globally. In line with this, China has in recent years relaxed the limitations of conversion of RMB and signed swap agreements with several Southeast Asian countries. In addition China has allowed for RMB to be used for cross-border trade with Hong Kong in an effort to encourage the use of the currency abroad.

The second purpose for the pilot program is that China is hoping that the new regulations will curb speculative capital influx and open up new investment outlets for some of the capital that have been accumulating overseas. This purpose is especially important for China's central bank to better control the nation's high inflation rate as well as their overall monetary policy, which is being hindered by speculative capital.

For more information about foreign direct investment using RMB, please contact anna.stalnacke@iljgroup.com.

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The JLJ Group

The JLJ Group is a one-stop service provider assisting foreign companies with their mission to enter and grow in China. For more information visit www.iljgroup.com or email us at info@iljgroup.com.

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