



Shanghai - Beijing - Boston

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Solutions for China Entry & Growth

Welcome to JLJ's e-newsletter - *China Focus*. With our latest articles, we hope to share with you insights and the latest China regulatory updates, trends, and other news. Each month, we bring this e-newsletter to you as part of JLJ's value-added service.

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Market Insights

China's Education and Training Industry



China's education system is one of the world's largest, with over 159 million students enrolled in primary and secondary schools as of 2009. There are more than 109,000 registered education and training institutions. Although China's economy showed positive growth in 2009, it still felt the impact of the economic crisis. With the rise in unemployment levels, more individuals, including recent college graduates, are pursuing further study in order to increase competitiveness in the labor market, thus creating opportunities in some education and training sectors. There are several key factors for any company considering entry into China's education and training industry:

- **Regulatory Environment:** Education is a heavily regulated industry, with both "core" and "non-core" sectors, each with their own body of rules and regulations. It is crucial for any potential entrant to fully understand these regulations before market entry
- **Education Segments:** *Children's education, language, IT, and soft skills training* are the largest segments in the education training industry and continue to experience strong growth
- **Target Markets:** Tier 1 cities such as Shanghai and Beijing are extremely developed; however, some Tier 2 cities may present significant opportunities

Despite the market size, Chinese students are selective in terms of educational institutions, especially after the financial crisis. This limits opportunities for poorly established or lesser-known institutions. Understanding these and other current market trends is critical to the success of foreign companies considering entry into China's education and training industry.

For inquiries about this article, or JLJ's industry reports on other key economic sectors, or other work of our consulting division, please email Mark Ray at Mark.Ray@jljgroup.com.

JLJ has recently released several new Industry Reports on the China market:

China: Education and Training Industry

Focus on five key emerging markets - Shenzhen, Tianjin, Qingdao, Ningbo, and Nanjing - for education & training sectors of language, IT, soft skills training and children's education.



China: Clean Tech & Non-renewable Industry

Focus on China's traditional, non-renewable energy sectors - coal, oil, and nuclear power, which together account for about 90% of China's energy mix.



China: Wastewater Treatment Industry

Focus on eight key emerging Tier II markets - Tianjin, Dalian, Hangzhou, Wuxi, Shenzhen, Xiamen, Chongqing, Wuhan.



China: Solid Waste Treatment Industry

Focus on seven key emerging Tier II markets - Dalian, Harbin, Hangzhou, Ningbo, Nanjing, Shenzhen and Chongqing.



For more information about any of JLJ's industry reports, please contact info@jljgroup.com.

Tax Updates

Changes in Representative Office Taxation

The SAT recently issued Guoshuifa (2010) No. 18, a measure which further alters policy towards foreign companies with Representative Offices in China. In effect from January 1, 2010, companies will now have to pay corporate income tax on their taxable income, sales tax, and VAT. They must assess their corporate income tax using a cost plus or actual revenue method, with a profit margin amounting to no less than 15%. This is an increase from the previous stipulation of 10%. The actual revenue method applies to companies who can prove their gross income and expenses, while two different cost plus methods apply to companies who cannot adequately provide this information.

In order to comply with this new law, companies must accurately calculate their taxable income, and declare this to authorities at least 15 days before the end of the quarter. They also must provide valid accounting records and notify relevant authorities of any changes regarding tax registration or early termination of business activities. According to the law, authorities now have the right to penalize those ROs who do not provide accurate or complete records. In addition, ROs should obtain relevant business documents from local authorities within 30 days of obtaining new information. A possible concern of the new rules is that it repeals previous measures (namely, Circular 165 [1996]) without addressing specific changes. The new circular represents a large shift in tax treatment for ROs, and companies should determine exactly how this will affect them. It is important to



keep accurate accounting records and take note of how the new measures affect China operations.

For more information, please email to lisa.li@jljgroup.com

Human Resources

Employee Engagement and Talent Retention



According to personnel, in every industry the most effective channel to attract and retain talent is to offer more leadership opportunities, mentoring schemes, and training programs. In China, it is also important to increase benefits apart from regular wages, such as medical schemes and educational allowance. The popularity of this type of compensation lies in its practicality, in which the company is able to raise its level of wages as a whole.

The manufacturing and consumer goods industries attach the most importance to employees' advanced education and training programs. These two industries are moving rapidly away from the economic recession and are once again expanding. Employers must consider key reasons for employees to remain at their company, and must use their abilities to adapt to an increasingly vigorous business environment.

Increasing salaries and bonuses is seen as the top priority in the IT&T and Media/PR/Advertising industries. Because they were known for their high salaries beforehand, IT&T companies did not change their wage levels after being hit by the economic crisis. In order to attract and retain outstanding talent, however, they now must increase wages. The wages of many marketing and advertising companies also did not increase very much, with the result that now employees are starting to ask for raises.

Employees questioned in the banking and financial services industry were concerned with all categories relating to the reduction of the rate of employee turnover. These include education and training, wages, bonuses, and other monetary factors; flexible working hours; and other aspects of work life. With increasingly fierce market competition, this indicates that banks must now offer competitive comprehensive monetary benefits in order to attract necessary talents.

For more information, please email to janefang@huijiechina.com or view our latest [China HR Recruitment guide](#).

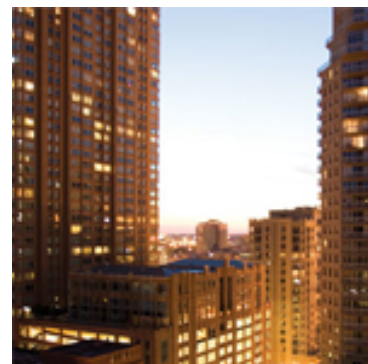
China FDI

Methods of Foreign Investment in China

China's investment market has changed as the country has opened up and developed. Today, foreign investment in China is divided primarily between the channels of direct investment and of all other means of investment such as trade, processing, and assembling. Representative Offices are a popular way to establish a China presence as well, although they are not technically a Foreign Invested Enterprise. Many investors choose also direct investment in the following outlets:

- **Sino-foreign Joint Ventures (JVs)**

These operations are among the first forms of foreign investment in China, although they are not as common anymore. One form of this is a cooperative joint venture, which is agreed upon in a written contract. In general, the foreign party supplies the bulk of the capital while the Chinese partner supplies land, manufacturing capabilities, and other facilities, in addition to come capital



- **Foreign-Funded Share-holding Companies**

The total capital in this enterprise is formed by equal shares in which holders take due responsibility and the company will take responsibility of its debts through its assets. Foreign shares account for over 25% of total registered capital

- **Wholly Foreign-Owned Enterprises (WFOEs)**

This form of investment is the most popular among investors in China, and is outstripping JVs as the preferred method of doing business in China. These enterprises are limited liability companies with capital derived entirely from a foreign company, organization, or individual. They are independent entities which can fully operate in China without a domestic partner. They must be in accordance with Chinese law and must provide some benefit to the Chinese economy. There is also a minimum investment requirement for such enterprises. These often operate in the manufacturing, services, IT development, and trading sectors

In addition, there are several newer types of foreign direct investment which are expanding at the moment. These include BOTs and investment companies. In particular, the predominance of multinational M&As has caused the government to research and facilitate foreign investment in this area.

If you have any questions, please feel free to contact: rosemary.chen@jljgroup.com.

Updates

Job Vacancy - Beijing

Business Development Coordinator, Beijing, Chinese & English speaker; US law firm

Rare opportunity to join the Marketing and Business Development team of a global law firm in China. Based in the rapidly growing Beijing office, you will be responsible for the office marketing and business development, working closely with the Hong Kong BD / Marketing team.

For more information, please read [here](#) or contact Katja.friedrich@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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