

Shanghai - Beijing - Boston

Brought to you by The JLJ Group
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.

[Market Insights - Potential Opportunities for Office Furniture Companies in China](#)

[Tax Updates - Foreign Investors Become Subject to City Maintenance and Construction Tax and Education Surcharge](#)

[Human Resources - China Adopts Social Insurance Law Allowing Transfer of Pension Account Nationwide](#)

[China FDI - China Released New Regulation On Administration of Representative Offices of FIE](#)

[Feedback](#)

[Subscribe](#)

[Past Newsletter Issues](#)

[China Industry Reports](#)

www.jljgroup.com

Market Insights

Potential Opportunities for Office Furniture Companies in China

As China's economy continues to develop, especially in terms of expanding "white collar" sectors, so does the demand for high quality office furniture. The office furniture industry has experienced about 10-15% average annual growth over the past decade, with size exceeding USD \$15 billion in 2009.

For foreign office furniture companies, China offers potential opportunities for expansion and growth beyond providing just a manufacturing base. The following are a few key aspects of the office furniture market in China:



- **Segmented industry structure** - the overall industry is highly fragmented, though the companies positioning in the high end of the market are able to differentiate themselves through higher quality and service
- **Growing domestic demand** - China's economy continues to grow at 9-10%/ year; with an increasing number of domestic and foreign companies establishing new offices in China, the demand for high quality office furniture is expected to continue growing
- **Emergence of Tier 2 and Tier 3 Cities** - Tier 2 cities are already becoming important markets for high-end office furniture, and so will Tier 3 cities as they continue to develop further.

Several foreign companies have already established their manufacturing facilities in China mainly because of the historically low production cost. With the current pressure on the RMB to appreciate and rising labor costs in some industry clusters, foreign companies already present in China have started targeting the domestic market.

Whether a foreign company is entering China for the first time or expanding operations in its domestic

market, it is crucial to understand the competitive landscape, market dynamics, government regulations, opportunities, and barriers in order to avoid common pitfalls and maximize chances of success.

For inquiries about this article and how The JIJ Group can assist your company, please contact Mark Ray at mark.ray@jjgroup.com.

Tax Updates

Foreign Investors Become Subject to City Maintenance and Construction Tax and Education Surcharge



According to the State Council's Circular (Guo Fa [2010] No. 35) released on October 18th 2010, foreign and foreign-invested enterprises, effective December 1st 2010, will be required to pay city maintenance and construction tax and education surcharge, which they have been exempted from for the past 16 years. Abolishment of preferential treatment for foreign investors is meant to level the playground between domestic and foreign companies, who enjoyed better tax policies when China government was promoting foreign investment.

The two indirect tax surcharges are based on percentage of value added tax (VAT), business tax (BT), and consumption tax (CT). The education surcharge is calculated as a flat rate of 3% while city maintenance and construction tax differs depending on the location of the taxpayer: 7% for taxpayer located in city; 5% for taxpayer in a county or town area; and 1% for other regions.

Even though the rates are not high, the impact of the new regulation is worth attention for companies with significant VAT, BT and CT liabilities. Affected companies are recommended to review current tax strategies and business transactions to decrease incoming tax burden. Immediately, companies should examine current tax payment schedule to avoid extra cost before December 1st.

For more information about business levied for business tax, please email to tim.lamb@jjgroup.com

Human Resources

China Adopts Social Insurance Law Allowing Transfer of Pension Account Nationwide

China's top legislature voted and passed a social insurance law on October 28th, the first of its kind, in an effort to prevent the improper use of social security fund as well as to improve the social security system in both urban and rural areas. Effective from July 1st 2011, both urban and rural workers can transfer their basic pension account from one residence to another.

Specifically, it allows Chinese citizens to pay pension premiums in one place and draw money in another, if they migrate to other cities or provinces. This is particularly significant as the country has a much more mobile population than in the past. The law also promises a new medical payment system which will allow citizen to transfer medical insurance from one place to another. The adoption of social insurance law is quite a step forward, since it overcomes many restrictions for the migrant population under the old regulations.

The law specifies that all citizens have the right to access and enjoy five forms of insurance: basic endowment insurance; basic medical insurance; employment injury insurance; unemployment insurance; and maternity insurance.



The concept of this social insurance law was first proposed about 16 years ago by the top legislature. The law's current draft has been debated on for three years.

For more information, please email to may.bai@jljgroup.com.

China FDI

China Released New Regulation On Administration of Representative Offices of FIE



On November 19, 2010, The State Council released Regulations on the Administration of Registrations Made by Resident Representative Offices (RO) of Foreign Enterprises which will come into effect on March 1, 2011. These new regulations are formulated in light of strengthening the administration of the representative offices in China.

According to the new regulations, from March 1 to June 30 each year, resident representative offices of foreign enterprises are required to submit an annual report to the registration authority, providing information on lawful existence of foreign enterprises, ongoing business activities of the RO, and its income and expenses audited by its accounting agency. Failure to submit an annual report within the specified

timeframe will result in a penalty of RMB10,000 to RMB30,000, while providing false information will be fined with RMB20,000 to RMB200,000. Fraud may also lead to license revocation.

The RO represents the interests of the foreign investor by acting as a liaison office for the parent company. RO can conduct market research, develop partnerships and business channels; however, all business transactions, including issuance of invoices, are managed by the parent company. ROs will have to pay an RMB50,000 to RMB200,000 penalty for profit activity involvement, and RMB10,000 to RMB100,000 for exceeding the activity scope mentioned above.

For more information about the new regulations on the administration of RO, please contact tim.lamb@jljgroup.com.

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.

Shanghai

Suite 603-605 Oriental Center
699 Nanjing West Rd 200041
T: +86 21 5211 0068 | F: +86 21 5211 0069

Beijing

Suite 2002, Building 1
Blue Castle International Centre
3 Xi Dawang Rd, Chaoyang District 100026
T: +86 10 6582 0268 | F: +86 10 6582 0251

Boston

77 Martin Street, #37 Cambridge, MA 02138
T: +1 857 636 2596