

**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.

## Tax Updates

### Quake Donations are Tax Deductible



More than a month has lapsed since the deadly quake shook China's Sichuan province. Now, resources and funds are mainly channelled to relief and reconstruction efforts in the affected areas. The State Administration of Taxation recently issued a Circular (Caishui [2008] No.62), which included a reiteration of the nation's policy on tax deductions for charitable donations.

Enterprises are allowed to deduct their donations made, up to 12% of their annual profits, from their taxable income, while tax-deductible for individual donors is capped at 30% of their taxable income. However, to qualify for tax deductions, the donations must be made through specific non-profit organizations approved by the Chinese government, including the Red Cross Society of China. Official receipts must be obtained from the organizations and produced as supporting documents during tax filing. As for foreign government organizations and enterprises which donate supplies such as medicine, daily necessities and rescue tools to the disaster stricken areas, such donations will be exempted from China import taxes.

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## China FDI

### Qualify as High/New Tech Enterprise to Access Reduced Tax Rate

Though most tax incentives for foreign enterprises have been removed with the promulgation of China's new Corporate Income Tax law, some preferential policies still exist for encouraged industries - eg. High/New Tech Enterprises (HNTE) will enjoy a reduced income tax rate of 15%. The recently issued circular (Guo Ke Fa Huo (2008) No.172) details the following qualifying requirements for HNTE:



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- Registered in Mainland China for at least one year
- Possess Intellectual Property (IP) rights for a stated minimum period
- Products/services falls within one of the 8 categories stated in the "Catalogue of High/New Tech Domains Specifically Supported by the State"
- Employ a minimum headcount of university graduates (30% of total headcount), of which at least 10% must be engaged in R&D activities
- Maintain prescribed minimum percentages for both R&D expenditure as well as income deriving from high/new tech products or services
- Satisfy further assessment guidelines that will be issued at a later date

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## Human Resource

### Recruiting Right by Profiling Talent 'DNA'

Short of a systematic approach to map an organization's needs with its candidates' profiles, many recruiting decisions end up skewed by hiring managers' personal biases. For example, an introvert may recruit someone of a mild character, whom he can better relate to, but probably not the best person for a sales position.



Profiling of Talent DNA enables organizations to identify critical competencies to be developed or enhanced in order to achieve its business goals. Put it simply, it is about the "What" and "How" of the executive and management jobs. "What" business needs does this position need to fulfill and "How" they can be fulfilled (competencies required). Unlike a job description, a Talent DNA is much more specific, pragmatic and tailored to the position. It helps both the HR and hiring managers to stay focused on hiring criteria with positive impacts on a company's success.

Today's top leadership positions vary significantly, depending on the role, the proximity to business results and the level of operational or strategic focus, each requiring a unique set of competencies. A well thought out DNA Profile will be critical to the successful hunt for the "best fit" for an organization.

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## Market Insights

### Tier 2 cities series: Qingdao

Qingdao, a coastal city located in Northern China, is one of China's top commercial ports, a leading marine science center and headquarters of the northern command of the Chinese navy. Qingdao is known as one of the most pleasant coastal cities in Northern China - its good climate and beautiful beaches have not only helped to attract investment but also tourism over the past few years.

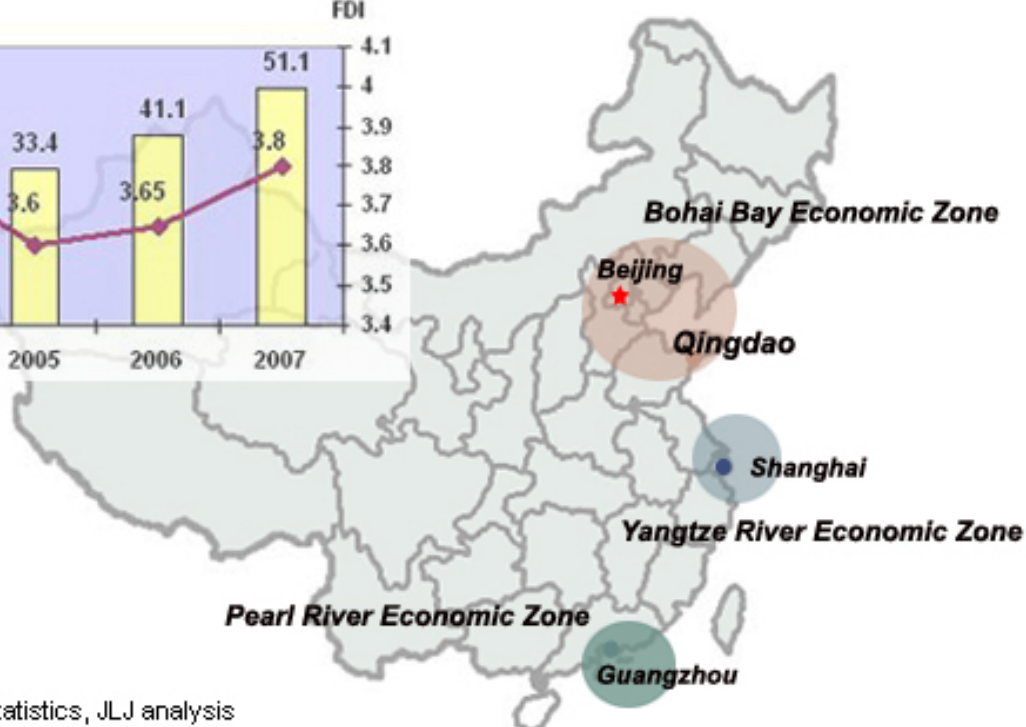
Home to many well-known companies, such as Haier - one of China's top consumer brands or Tsingtao Beer - China's number one export brand, Qingdao has become a favorite destination for foreign investment in the past few years, achieving one of the highest FDI levels (US \$ 3.8 billion in 2007) in China. In fact, at the end of 2007, it ranked number 5 among China's wealthiest cities. This is indeed not surprising - as a co-host city of the Olympic Games this year, the city's business leaders have focused on attracting more and more new foreign investment.

## Qingdao: GDP & FDI figures

[US billion]



Source: National bureau of statistics, JLJ analysis



Compared to many other cities in China, Qingdao has multiple advantages including a good infrastructure, an accommodating and supportive local government and a prime position in the center of the Northeast Asia market, close to Korea and Japan.

Currently, Qingdao has a population of about 7.5 million people and due to its location a relatively high percentage of foreign residents - mostly from South Korea and Japan. Its GDP amounted to US \$51.1 billion in 2007 (growing at 16% that year) and its key industries include electronics, pharmaceuticals, chemicals, building materials and autos.

For more information about Qingdao or any specific industry, please view JLJ's Industry Reports [here](#) or email to [katja.friedrich@jljgroup.com](mailto: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.

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