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Solutions for China Entry & Growth

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.

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Human Resource

Shanghai Raises Employee Insurance Contribution Base



All enterprises in China, including foreign companies, are required by the China Labor Law to contribute social insurance or integrated insurance premiums for their Chinese employees.

As of 1st April 2007, the minimum salary base used for the calculation of social insurance premiums has been increased to RMB 1,478 and the maximum salary

cap has been increased to RMB 7,392 (equivalent to 60% and 300% of Shanghai's average salary respectively). Such adjustments are performed annually according to the changes in Shanghai's average salary. The "沪劳保综发(2007) Article 12" document, recently published by Shanghai Labor and Social Security Bureau and Shanghai Statistics Bureau, reveals that the 2006 average salary in Shanghai rose 10.2% from 2005, to annual salary of RMB 29,569 and monthly salary of RMB 2,464.

Meanwhile, the integrated insurance premium for non-Shanghai local employees has also been increased to a fixed monthly premium of RMB 204.80. The salary ceilings used in the computation of public housing fund contribution - which are currently still based on 2005's average salary statistics - are also expected to be adjusted in July 07.

For more information about social benefits schemes for Chinese employees, please email to may.bai@jljgroup.com.

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Market Insights

China Automotive Market



JLJ at the 2007 Shanghai Auto Show

China's automotive market is already the world's second in terms of domestic sales and the world's third in terms of production, after U.S. and Japan. Its outstanding growth averaged 20% annually for the past 5 years, with 7.22 million vehicles sold in 2006. In addition to the already established cities of Shanghai and Guangzhou, several Tier-II cities are also considered key production clusters - including Changchun, Wuhan, Tianjin, Nanjing, Chongqing, and Dalian.

With all major foreign OEMs already producing in China, significant opportunities exist for automotive suppliers. China's automotive component market,

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estimated at US \$46 billion (2006), is expected to become the world's largest market and production base by 2020.

Currently, Chinese suppliers dominate the lower end of the market and are moving aggressively towards the mid-market. The best prospects for foreign automotive component manufacturers therefore lies in the high-end product categories where technology, know-how and economies of scale can make a difference.

The strong momentum in China automotive industry was very tangible at the 2007 Shanghai International Auto Show held from April 20th to 28th. All key OEMs and suppliers, as well as over 500,000 visitors were present at the show.

For more information, please email to alessandro.duina@jljgroup.com.

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Tax Updates

Your Donation is Tax Deductible!



According to PRC Tax Law, foreign enterprises are entitled to tax deductions for their donations to charities engaged in education, public welfare or relief purposes. Donations can be regarded as expenditures and fully deducted from a foreign enterprise's taxable income.

To qualify for tax-deduction, the donations must be made through one of the approved governmental bodies or non-profit organizations (NPO). As of July 2006, there were 38 such organizations, including China Youth Development Foundation, Project Hope Foundation, Foundation of Madame Song Qingling, The Disaster Prevention Commission, Red Cross Society of China, etc.

For domestic enterprises and individuals, the tax deduction rule differs. Donations to 22 of these organizations can be fully tax-deductible, while the tax-deduction for donations made to the remaining 16 organizations are capped at 3% of the company's taxable income or 30% of the individual's taxable income.

For more information, please email to katherine.cui@jljgroup.com.

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China FDI

Representative Office or WOFE?

Often companies use Rep Offices as an initial presence in China to test the market, as they consider a WOFE a more significant and hence, more costly approach to the market. But as the government has lowered the minimum registered capital threshold; liberalized many industries to allow full foreign ownership; and is in the process of unifying its corporate income tax; starting your China venture with a WOFE in lieu of a Rep Office may be a better choice:

- By managing revenues, a WOFE may be able to pay less tax than a comparable Rep Office
- Starting off with a full fledge company that encompasses potential business activities saves time and administrative costs in canceling your Rep Office to open a WOFE
- No middle men required - with the right structure, you can import, export, and distribute locally, sign contracts, issue invoices and hire your local employees directly.



For more information about corporate formation in China, please email to tim.lamb@jljgroup.com.

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Labor Law Compliance for SMEs



JLJ Partner, Mr AJ Hu, will be sharing insights on "China Labor Law Compliance for SMEs" at the British Chamber's SME Focus Group Seminar. This informative seminar will look into all the

basic Legal and HR compliances which SME companies have to adhere when employing staff in China.

Seminar Details:

Date : Tuesday, 5th June 2007
Time : 6:00pm to 7:30pm

For more information about the event, please click [here](#) or email to lynn.ng@jljgroup.com.

The Chinese Calendar



The Chinese calendar dates back to 2600 B.C and is the oldest known calendar.

Based on the cycles of the moon, each Chinese year is represented by one of the twelve animals - legend has it that these twelve animals were chosen by Lord Buddha because they visited him before he departed from earth. The Chinese believe the animal ruling the year in which a person is born has a profound influence on personality.

The Chinese new year is different every year, but is usually between the end of January and the middle of February. A complete cycle of the Chinese calendar takes 60 years or 5 sets of 12 years.

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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