

Distribution Services – 2007 Liberalization Measures

1. Under the CEPA 2007 liberalization measures, what are the preferential treatments for distribution services?

Under the CEPA 2007 liberalization measures, for the same Hong Kong service supplier which opens **more than 50 outlets** accumulatively in the Mainland, if the commodities for sale include **pharmaceutical products, pesticides, mulching films, chemical fertilizers, vegetable oil, edible sugar and cotton**, and the above commodities are of different brands and come from different suppliers, the Hong Kong service supplier is allowed to become the controlling shareholder, with the proportion of capital contribution not exceeding 65%. Compared with the preceding phase of liberalisation, the number of retail outlets of such chain stores that are allowed to be wholly-owned by Hong Kong service suppliers will be increased from not more than 30 outlets to not more than 50 outlets. If the number of outlets of such chain stores is more than 50, Hong Kong service suppliers are still allowed to become the controlling shareholders, with proportion of capital contribution not exceeding 65%. (Note: If the commodities for sale include books, newspapers, magazines and staple food of different types and brands from multiple suppliers, the Mainland's commitments in Supplement III to CEPA are still applicable, i.e. Hong Kong service suppliers are allowed to wholly-own such chain stores with not more than 30 outlets. If the number of outlets of such chain stores is more than 30, Hong Kong service suppliers are allowed to become the controlling shareholders, with proportion of capital contribution not exceeding 65%.)

The above preferential treatments for distribution services provided to Hong Kong service suppliers by the Mainland are WTO plus, i.e. the Mainland has not made similar commitments to other WTO members. Foreign majority ownership is still not allowed for the operation of such chain stores for other foreign investors.

2. What are the approval and application procedures in the Mainland for Hong Kong companies to set up distribution enterprises under the CEPA? What are the relevant rules and regulations?

Eligible Hong Kong service suppliers are allowed to provide distribution services in the Mainland with the preferential treatments provided by the CEPA. These include external trading, wholesale trade services, commission agents' services, retailing services and franchising. Since Hong Kong service suppliers are regarded as foreign investors, the Mainland's general rules and regulations currently in force for foreign-invested enterprises, for example the “Measures for the Administration of Foreign Investment in Commercial Fields” and the “Company Law of the People’s Republic of China”, should be followed. In addition, there are specific regulations for running foreign-invested businesses in the wholesale, retailing, external trading and franchising sectors. These regulations set out the approval and application procedures, the approved business scope, and the implementation of preferential treatments under CEPA. Full texts of the regulations can be found from the Department's Information Database on CEPA Service Sectors webpage (http://www.tid.gov.hk/english/cepa/tradeservices/trade_services_requirement.html#Distribution), which also provides an Easy Guide to Investment with details on setting up distribution enterprises in the Mainland.