

Distribution – 2008 Liberalization Measures

1. What are the new liberalization measures for the distribution sector under Supplement V to CEPA?

Under the CEPA 2008 liberalization measures, for the same Hong Kong service supplier which opens **more than 30 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 operate on a **wholly-owned basis**.

Compared with the preceding phase of liberalization, where such Hong Kong service suppliers can only become the controlling shareholders, with proportion of capital contribution not exceeding 65%, the current measure of allowing wholly-owned operation provides greater flexibility to the Hong Kong traders when setting up their business in the Mainland.

(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 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 can enjoy CEPA's preferential treatments when entering Mainland's distribution market. These include commission agents' services, wholesale trade 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 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 in the Department's Information Database on CEPA Service Sectors webpage <http://www.tid.gov.hk/english/cepa/tradeservices/distrib.html> which also provides an Easy Guide to Investment with details on setting up distribution enterprises in the Mainland.