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Invest in Hong Kong for success in Mainland China

The CEPA Benefits

Expand your Mainland trade
in goods and services, as
well as investment from
your base in Hong Kong



The Government of the Hong Kong Special Administrative Region





The Closer Economic Partnership Arrangement (CEPA), signed on 29 June 2003 by the Central People's Government and the Government of the Hong Kong Special Administrative Region, opens up new and exciting opportunities in the Mainland for both local and international companies and individual investors based in Hong Kong. In addition, six annexes, signed on 29 September, set out the implementation details of CEPA. Effective 1 January 2004, it provides preferential and accelerated market access to 18 key service sectors in the Mainland, as well as offering zero import tariffs on 374 categories of goods* which meet the rules of origin. CEPA strengthens Hong Kong's position as the most direct and cost-effective path into the Mainland markets. It provides for 100% equity in many ventures and lower entry thresholds for Hong Kong companies.

New opportunities

*According to Mainland China 2004 tariff codes. Previously, according to the Mainland China 2001 tariff codes, 273 categories of goods were eligible.



This free trade agreement is the first for both Mainland China and Hong Kong. It creates immense potential for Hong Kong to become a centre for value-added manufacturing and high quality services for a vast domestic market of some 1.3 billion people. With China's accession to the WTO and the signing of CEPA, Hong Kong's role as an international trade and business centre and a gateway to China will be further strengthened. The emergence of Mainland China as one of the most dynamic economies in the world has also offered a range of additional opportunities.

For multinational companies looking to profit from a Hong Kong/Mainland China strategy, Hong Kong is the ideal base. The city's infrastructure, business and cultural links with the Mainland, as well as its institutions, regulatory environment and people provide an excellent entry platform.

For Mainland investors, Hong Kong provides a springboard to regional and global markets, as well as access to local and overseas business partners. They also will benefit from an excellent banking and financial system, free flow of capital and information and quality business and professional services. Manufacturers can benefit from duty-free sourcing of raw materials while distributors can enjoy minimal regulations on imports and exports. An intangible asset is the high degree of comfort found in Hong Kong, related to such factors as culture, language and China experience of the business people in the city.

According to the Director-General of Investment Promotion at Invest Hong Kong, Mike Rowse, CEPA will have a profound impact on Hong Kong's economic integration with the Mainland and encourage investment in Hong Kong, Asia's world city: "CEPA opens a new chapter in cross-border trade and investment, making it considerably easier for Hong Kong-based companies to expand across the boundary. This is especially attractive for companies in the services sector, where Hong Kong is particularly strong. CEPA will add to Hong Kong's advantages as an investment destination."

Why Hong Kong



- > Trade in goods
- > Trade in services
- > Trade and investment facilitation

Eliminating tariffs

On trade in goods, the Mainland will eliminate tariffs on imported goods of Hong Kong origin in stages. Initially, a total of 374 Mainland product codes, or about 90% of Hong Kong exports to the Mainland, meeting CEPA rules of origin criteria will enjoy zero tariffs beginning 1 January 2004. Other products will be granted zero tariff status no later than 1 January 2006, based on applications by local manufacturers and CEPA rules of origin being agreed and met.

Before 1 October each year, both sides will confirm the revised product list (which could include innovative products not yet in production anywhere) and complete consultations on the origin rules. For products that are currently in production, tariff elimination will commence in the following year. For products that have not yet been manufactured in Hong Kong, zero tariff will be applied from 1 January of the year following that in which after the products came into production.

Hong Kong's existing origin rules will be adopted as the CEPA origin rules for 70% of the 374 product codes. For the remainder, either the 'Change in Tariff Heading' approach or the '30% value-added' requirement will apply.

Both sides agree that the origin of the products is the ultimate assessment criterion on whether the goods can enjoy zero tariff. The length of establishment of the manufacturer in Hong Kong is irrelevant. Moreover, foreign owned companies enjoy the benefits in exactly the same way as Hong Kong or Mainland ones.



Greater market access

On trade in services, providers in 18 sectors will have greater market access in the Mainland under CEPA. To facilitate cross-border business, many representatives from various professions in Hong Kong and the Mainland have reached agreement on the mutual recognition of their respective members' professional bodies. The following categories and benefits are included:

Accounting Permits allowing Hong Kong companies to conduct auditing services in the Mainland will be valid for one year. Hong Kong Accountants who have qualified as Chinese CPAs and practised in the Mainland will be treated as mainland accountants in respect of annual residency requirement.

Advertising Hong Kong firms can establish wholly-owned advertising companies in the Mainland.

Audiovisual Chinese-language movies produced in Hong Kong can be distributed in the Mainland free from the foreign film import quota of 20 per year. Movies jointly produced by Hong Kong and the Mainland are treated as Mainland motion pictures for the purpose of distribution in the Mainland.

Banking The asset requirement for banks to establish branches in the Mainland is reduced to US\$6 billion from US\$20 billion.

Construction and Real Estate Hong Kong firms can establish wholly-owned operations in the Mainland. Such companies are exempted from foreign investment restrictions when undertaking Chinese-foreign joint construction projects.

Convention and Exhibition Hong Kong companies can establish wholly-owned operations in the Mainland.

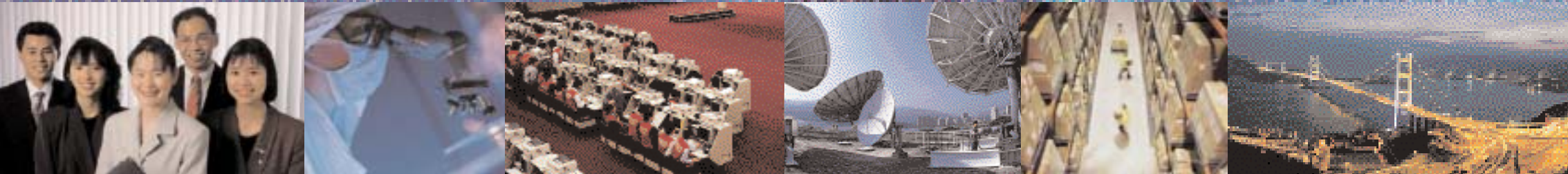
Distribution Hong Kong firms providing distribution services, such as wholesaling, retailing and franchising, can set up wholly-owned operations and at a lower capital requirement. Hong Kong car dealers can set up wholly-owned retail operations across the border with up to 30 outlets.

Freight forwarding agency Hong Kong firms can operate on a wholly-owned basis in the Mainland and enjoy equal treatment as Mainland companies for the minimum registered capital requirements.

Trade and investment facilitation

Trade in goods

Trade in services



Insurance The maximum limit of capital participation by a Hong Kong insurance firm in a Mainland insurance company is raised to 24.9% from 10%. Hong Kong residents who obtain relevant Mainland professional qualifications can provide actuarial or insurance agency services there.

Legal Minimum residency requirement is waived for all Hong Kong representatives stationed in Hong Kong law firms located in Shenzhen and Guangzhou and is shortened to two months for other areas. Hong Kong lawyers will be able to work for Mainland firms. Special automatic entitlement to CEPA benefits applies to certain law firms.

Logistics Hong Kong companies can set up wholly-owned operations in the Mainland.

Management and Consulting Hong Kong firms can set up wholly-owned operations in the Mainland.

Medical and Dental Hong Kong doctors can work in the Mainland for up to three years. On expiry, the licence for short term practice is renewable. Hong Kong medical workers can sit exams to work in the Mainland.

Securities Hong Kong Exchanges and Clearing can set up a representative office in Beijing.

Storage and Warehousing Hong Kong companies can operate on a wholly-owned basis in the Mainland.

Telecommunications Hong Kong companies can set up joint-venture enterprises in the Mainland to provide value-added services. There will be no geographic restriction for joint-venture enterprises so formed to provide value-added telecommunication services.

Tourism Hong Kong companies can construct, renovate and operate hotels, apartment buildings and restaurants in the Mainland on a wholly-owned basis.

Transport Hong Kong companies can operate in the Mainland on a wholly-owned basis.



Recognised entities and individuals

To enjoy the benefits of CEPA, an entity must first be recognised as a 'Hong Kong Service Supplier'. The definition provides for 'juridical persons' (companies, partnerships, sole proprietorships) and 'natural persons' (usually a Hong Kong permanent resident). Under CEPA, they will enjoy preferential treatment provided that they fulfill the definition and related requirements stipulated in the relevant annex. A 'juridical person' refers to any legal entity duly constituted or otherwise organised under the applicable laws of Hong Kong and which has engaged in substantive business operations (based on e.g. nature and scope of business, years of operation, profit, scale of business premises and employment of staff) in Hong Kong for 3-5 years. Entities or individuals interested in qualifying as a Hong Kong service supplier should apply to the Trade and Industry Department (TID) for a Certificate of Hong Kong Service Supplier in order to obtain the preferential treatment under CEPA.

Building better networks

Both sides also agree on enhancing co-operation in the following seven areas:

- > trade and investment promotion;
- > customs clearance facilitation;
- > commodity inspection and quarantine, food safety, quality and standardisation;
- > electronic business;
- > transparency in laws and regulations;
- > co-operation of small and medium enterprises; and
- > co-operation in Chinese medicine industry.

New areas of trade and investment facilitation might be added in future, including further liberalisation of goods and services trade. Liaison mechanisms already established will be utilised for implementation purposes as far as possible, and the Joint Steering Committee of CEPA will be responsible for overall coordination.



Benefits for investors

Overseas investors can benefit in several ways, including the following:

- > Partnering with, investing in or buying a CEPA-qualified firm in Hong Kong to gain full benefits from the Arrangement.
- > Taking advantage of zero tariffs by manufacturing brand name products, or locating manufacturing processes with high value-added content or substantial intellectual property input in Hong Kong.
- > Using the faster market liberalisation measures for trade in services to secure a 'first mover' advantage for Mainland markets.
- > Capitalising on using Hong Kong as a channel for the trade in services to the Mainland to gain the broader benefits afforded by CEPA (so-called 'WTO-plus').

Benefiting from CEPA, these investors will find Hong Kong even more advantageous as a location for regional headquarters to direct and support business in China and elsewhere in the region.

Business people will decide whether and how to take advantage of CEPA to secure expanded access to the Mainland. Their decisions will determine the extent and range of business activities and the economic spin-offs for Hong Kong.

How Invest Hong Kong can help

Invest Hong Kong, the investment promotion agency of the Hong Kong SAR Government, provides assistance to foreign corporations and individuals looking to benefit from CEPA. For example, Invest Hong Kong can help:

- > Supply the latest information on CEPA, as well as on Hong Kong's overall business environment and investment regime, including comprehensive economic sector profiles, business incorporation, contacts, human resources and availability and costs for land, factories, offices and housing.
- > Communicate the opportunities offered by CEPA to foreign investors.
- > Deliver government information on funding and other support services for business as well as on taxation, import/export regulations, government projects, employment legislation and immigration requirements.
- > Identify and match potential investors with business partners in Hong Kong. Arrange meetings, site visits and calls on government departments as well as trade and industrial support organisations.
- > Work with specific sectors and other government departments to help foreign investors maximise the benefits from CEPA.

CEPA is being rolled out by a gradual, building block approach. For the latest information, please go to www.InvestHK.gov.hk and www.tid.gov.hk.

Assistance

Enquiries and Information

To reap the benefits of CEPA, please visit our website www.investhk.gov.hk, or contact us at our offices in Hong Kong and around the world, as follows:

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