

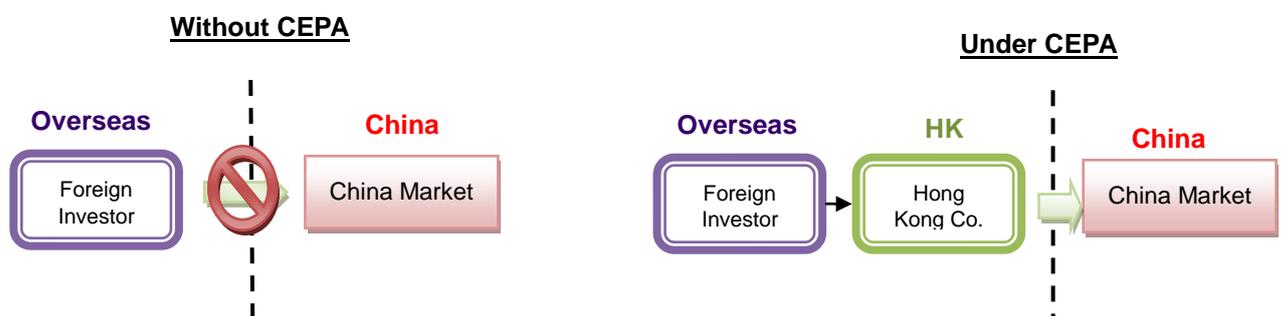
How to Utilize “CEPA”

What is CEPA?

The Mainland and Hong Kong Closer Economic Partnership Arrangement (“CEPA”) is the 1st free trade agreement entered into between the PRC and Hong Kong. CEPA adopts a building block approach to open up huge markets for Hong Kong goods and services, and continue to introduce liberalization measures. CEPA brings new business opportunities to the PRC, Hong Kong and all foreign investors. Foreign investors may establish businesses in Hong Kong to leverage on the CEPA benefits and join hands in tapping the vast opportunities of the PRC market.

Opportunities in Trade and Services

Traditionally, foreigners are prohibited in certain industry sectors in the PRC. As a preferential treatment, CEPA allows Hong Kong entities to participate in some restricted businesses. In other words, if a foreign investor can make use of a Hong Kong Corporation to indirectly participate in those businesses permitted under CEPA regime.



Successful Example:

Based on the prevailing PRC Foreign Investment Catalogue, foreign pharmaceutical company is not allowed to participate in the manufacturing and selling of pharmaceutical products in the PRC. Local pharmaceutical companies also need to be regulated and subject to license(s) restrictions. Nonetheless, CEPA allows Hong Kong service suppliers to provide, in the form of wholly-owned operations, commission agents’ services and wholesale trade services in respect of pharmaceutical products in the PRC. Thus a Singaporean pharmaceutical giant used its Hong Kong pharmaceutical subsidiary to act as a distribution channel to break its pharmaceutical products into the PRC market. Furthermore, the Singaporean pharmaceutical giant does not need to apply for special license to distribute its pharmaceutical products which is generally required by domestic companies.

Education Services:

Education is a forbidden sector to all participants outside the PRC. Nevertheless, under the CEPA regime, Hong Kong service suppliers can set up business-based training bodies (i.e. tutorial schools) on a wholly-owned, equity joint venture or contractual joint venture basis in the PRC. In other words, non-Chinese tutorial centers and schools may now set up their tuition centers in the PRC whilst they can protect their know-how and managerial power via wholly-owned structure which is otherwise not permissible without CEPA. Since the PRC market has huge demand on international education and there is lacking of existing reputable service provider in the market, an early entry may enjoy the first-mover advantage in the PRC market.

Successful CEPA Applications up to 30 April 2014:-

Service Sector	Cumulative Successive No.
Legal services	21
Accounting, auditing and bookkeeping services	3
Construction professional services and Construction and related engineering services	102
Medical and dental services	21
Computer and related services and information technology services	19
Real estate services	28
Advertising services	130
Management consulting and related services	46
Research and experimental development services on natural sciences and engineering	1
Public utility services	1
Placement and supply services of personnel	145
Photographic services	2
Printing services	111
Convention and exhibition services	22
Value-added telecommunications services	47
Telecommunication services	1

Service Sector	Cumulative Successive No.
Audiovisual services	62
Distribution services	352
Environmental services	1
All insurance and insurance-related services	15
Banking and other financial services (excluding insurance and securities)	10
Securities and futures services	11
Tourism and travel related services	39
Cultural services (excluding audiovisual services)	23
Transport and logistics services	1,333
Air transport services	223
Trade mark agency services	12
Services incidental to manufacturing	4
Administrative and support services	2
Education services	1
Other business services	3
Other human health services	2
Total	2,793

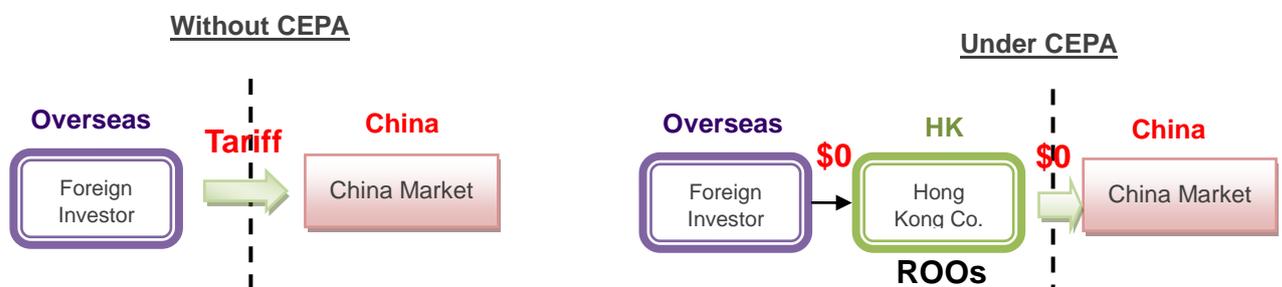
Requirements:

To be entitled to the benefits of CEPA, a service company, regardless of the nationality of its investors or shareholders, must (1) be incorporated under the laws of Hong Kong; (2) be liable to pay Hong Kong Profits Tax; and (3) employ in Hong Kong 50% or more of its total staff.

Specific service industries have to meet extra criteria to ensure the company has been engaging in substantive business for a minimum period in Hong Kong. For education services provider, the applicant have to demonstrate that the applicant has engaged in substantive business operations in Hong Kong for the past three consecutive years. For schools, record on school registration in accordance with Hong Kong Education Ordinance shall be provided.

Opportunities in Trade in Goods

Under CEPA, the PRC agreed to fully implement **zero tariff** on imported goods of Hong Kong origin upon applications by local manufacturers and upon the CEPA origin rules (“ROOs”) being agreed and met. There are over 1,700 ROOs items of goods are free from import tariff.



Successful Example:

Even though China has jointly-established Asia-Pacific Economic Cooperation forum in 1989 and joined World Trade Organization on December 2001, goods are yet to be freely traded. However, CEPA adopts a step by step approach to offer competitive advantages to Hong Kong entities. In the year 2013, the Shenzhen port allowed 12 types of goods to be imported at zero tariff, in which the bakery products value over USD6.2 million (with normal tariff rates of 6% ~ 65%) and medicines value over USD5.9 million (with normal tariff rates of 3% ~ 10%).

Requirements:

To be entitled to the benefit of zero tariff treatment, the goods must fulfill the ROOs. Each consignment of goods exported from Hong Kong to the PRC must be accompanied by a Certificate of Hong Kong Origin issued by the Hong Kong Trade and Industry Department or one of the five Government Approved Certification Organizations in Hong Kong.

Lists of goods entitle to zero tariff:

http://www.tid.gov.hk/english/cepa/tradegoods/files/mainland_2014.pdf

The Hong Kong manufacturer concerned is required to apply for Factory Registration with the Hong Kong Trade and Industry Department to demonstrate that its factory possesses sufficient capacity to produce the goods for export.

Act Now

In order to capture the benefits under CEPA, the Hong Kong business must have a certain years of operation to satisfy the conditions depending on the industry. In this connection, we strongly advise investors to setup their Hong Kong entity as soon as possible to crystallize the advantages from CEPA.

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