

# China Business Advisory

2016 Issue 6

June 2016



## TABLE OF CONTENTS

### 1. China Updates

- ✧ China Government Further Relaxes Trade Services and Investments by Hong Kong and Macao Service Providers
- ✧ New Regulations on China (Guangdong) Pilot Free Trade Zone (FTZ)
- ✧ Further Clarification of the Culture Industry Development Levy
- ✧ China Opens its Markets to Foreign Bank Card Companies

### 2. Service Highlight

## China Government Further Relaxes Trade Services and Investments by Hong Kong and Macao Service Providers

The State Council released Guofa [2016] No. 32 (“Circular 32”) on 31<sup>st</sup> May 2016. This Circular modifies administrative approval procedures and relaxes entry

restrictions for Hong Kong and Macao service providers offering services and investing in particular sectors of Mainland China. Circular 32 includes the following:

The relevant investments, for which the simplified procedures apply, are those made in the sectors falling under ‘Service Trade’ in the Closer Economic Partnership Arrangement (“CEPA”) between Mainland China / Hong Kong and Mainland China / Macao (“the Service Trade Agreements”).

Circular 32 relaxes entry restrictions (such as qualification requirements, foreign investment shareholding percentage restrictions, business scope restrictions, etc.) for Hong Kong / Macao service providers undertaking the following service businesses in Mainland China:

- Telecommunication services
- Transportation services
- Training services for non-academic vocational skills
- Establishing domestically-controlled, joint-venture arts performance groups in Mainland China (A Chinese citizen who is a permanent resident of Hong Kong / Macao may establish a sole trader business in Mainland China to undertake performance agent services. The sole trader business does not require approval as foreign investment.)
- Establishing wholly-owned enterprises engaging in the entertainment business in Guangdong province
- Conference and exhibition services
- Supporting services for air transport

The relevant departments of the State Council will further develop specific administrative rules of the sectors stipulated in the Service Trade Agreements in Mainland China. We will closely follow the latest developments and updates.

## **New Regulations on China (Guangdong) Pilot Free Trade Zone (FTZ)**

The Regulations on China (Guangdong) Pilot Free Trade Zone (“the Regulations”) were approved by the Standing Committee of the 12th People's Congress of Guangdong Province on 25<sup>th</sup> May 2016. The main articles of the Regulations are summarized as follows:

- Further open up for investment and facilitation of trade
- Financial innovation and risk supervision
- Cooperation between Guangdong and Hong Kong / Macao for the “One Belt, One Road” strategy

According to the Regulations, the Pilot FTZ shall implement the measures as follows:

- ✓ Adopting a pre-entry national treatment and negative list administration model. Under this treatment, foreign investment projects not appearing on the negative list only need record filings and do not require pre-approvals. In addition, importation of goods entering the bonded area of the Pilot FTZ may be admitted first and declared later with customs.
- ✓ A new trial implementation with respect to foreign exchange convertibility of capital items within the set quantitative limit. The limit allows qualified enterprises in the FTZ to carry out two-way, cross-border RMB cash pooling based on their own operational and management needs.
- ✓ Opening of shipping industry to Hong Kong and Macao and strengthening of cooperation with FTZs of the countries along the “Belt and Road”.

### **Further Clarification of the Culture Industry Development Levy**

Recently, the Ministry of Finance (“MOF”) and the State Administration of Taxation (“SAT”) issued Caishui [2016] No. 60 “Supplementary Announcement on Collection and Administration of Culture Industry Development Levy (“CIDL”)”.

Caishui [2016] No. 25 (“Circular 25”) issued by MOF and SAT in March 2016 requires that all advertising media outlets and outdoor advertising operators offering advertising services in China shall pay CIDL in accordance with the provisions of Circular 25. Recently, the MOF and the SAT further clarified in Circular 60 that entities and individuals that provide entertainment services as prescribed in Caishui [2016] No. 36 in China shall also be subject to CIDL in accordance with Circular 25 effective from 1<sup>st</sup> May 2016.

The calculation formula is as follows:

$CIDL \text{ Payable for Entertainment Services} = \text{Entertainment Service Fees} \times 3\%$

Circular 60 also clarifies that entertainment service providers can be exempt from CIDL if they do not reach the threshold of levying VAT.

## **China Opens its Markets to Foreign Bank Card Companies**

According to the new regulation “Administrative Measures on Clearing Entity of Bank Card” issued by the People's Bank of China and the China Banking Regulatory Commission on 7<sup>th</sup> June 2016, China is potentially giving groups like Visa Inc. and MasterCard access to its bank card payment market.

Visa and MasterCard, as the world’s two largest credit and debit card companies, have been lobbying for more than 10 years for direct access to China’s cards market, which is expected to become the world’s largest by 2020. Bank card consumption transactions reached 55 trillion yuan in 2015, accounting for 48 percent of total social consumption. The market is currently dominated by state-run China Union Pay Co Ltd.

Qualified foreign companies can apply to set up bank card businesses by meeting the same standards and processes required by domestic companies including but not limited to the following:

- The applicants need to hold 1 billion yuan (US\$152.2 million) in registered capital in a local company
- The foreign bank card companies must also meet China's national security and cyber security standards in addition to being locally based

Once companies have submitted their applications, the central bank will have 90 days to decide whether to grant an approval. Companies that are approved will have one year to set up their operations. Foreign investors are also allowed to acquire domestic card clearing firms subject to passing a security review.

## Service Highlight

Recent events indicate that the Chinese government is increasingly keen on the improvement of the business environment for foreign investors. We are pleased to be in a position to help investors take advantage of this development to identify and explore potentially promising investment opportunities for their growth and expansion. Our Marketing Executive, Ms. Kimme Chan, would like to hear from you at (852) 3579 8745 or [kimmechan@sinobridge-consulting.com](mailto:kimmechan@sinobridge-consulting.com) as to how we can assist you with your business plan for China.

## Our China Investment Business Advisory Team

### Hong Kong

Room 2301-02, 23/F, Prosperity Center,  
25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong

### Guangzhou

Room A13, 16/F, Vili International, 167 Linhexilu, Tianhe  
District, Guangzhou PRC 510000

**Website:** [www.sinobridge-consulting.com](http://www.sinobridge-consulting.com)

**E-mail:** [info@sinobridge-consulting.com](mailto:info@sinobridge-consulting.com)

**Telephone:** (852) 3579 8745

### Shanghai

Room 30A, 30/F, World Plaza, No.855, South Pudong  
Road, Pudong New Area, Shanghai, PRC 200120

### Lyon Odiceo

115 Boulevard Stalingrad – BP52038,  
69616 Villeurbanne Cedex, France

**Hong Kong**

**Guangzhou**

**Shanghai**

**Lyon**

For any enquiries, please contact Ms. Kimme Chan, Marketing Executive: [kimmechan@sinobridge-consulting.com](mailto:kimmechan@sinobridge-consulting.com) Tel: (852) 3579 8745