



PRC Retail Newsflash
6 August 2005

Newsflash: Distribution in China – Important Developments

1. New Legislation

On 13 July 2005, the *Notice on Issues Regarding the Administration of Trade Involving Free Trade Zones and Free Trade Logistics Zones (Notice)* was issued by the Ministry of Commerce and the General Administration of Customs.

Under the Notice, foreign-invested enterprises (**FIEs**) registered in the Free Trade Zones (**FTZs**) (e.g., Waigaoqiao in Pudong, Shanghai) will be permitted to engage in domestic distribution. We set forth below our preliminary observations regarding this new development.

2. Domestic Distribution Rights

Previously, FIEs in the FTZs were only permitted to hold foreign trading rights, thus requiring them to use import and export companies as agents for trading with parties located in the other parts of China.

Now, pursuant to the Notice, such FIEs may apply for domestic wholesale and retail distribution rights. Accordingly, upon securing such rights along with foreign trading rights, an FIE in say the Waigaoqiao FTZ may directly distribute imported and locally purchased products to parties throughout China.

Wholesale: FTZ FIEs may now apply to expand their business scope to include wholesale distribution. Since the Notice came into effect, the Waigaoqiao authorities have processed a handful of applications from well-known FIEs for expanded business scopes to include domestic wholesale distribution. In addition, such FIEs may apply to set up branches outside the FTZ to engage in domestic wholesale distribution.

Retail: FTZ FIEs may now also engage in retail distribution but are required to establish at least 1 retail store. However, due to unresolved tax issues, the Waigaoqiao authorities have suspended the processing of applications from FTZ FIEs to engage in domestic retail distribution.

3. Import and Export of Products

To date, all products that flow in and out of the FTZs are subject to export and import procedures. However, if an FTZ FIE now wishes to purchase products from Chinese parties outside the FTZs and then distribute the same throughout China, it no longer needs to undergo import and export procedures. The FTZ FIE may also directly handle the import

procedures for the distribution of imported products from the FTZ directly to parties throughout China.

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We trust that you find the above newsflash useful. If you have any queries, please contact:

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