



PRC Retail Newsflash
9 March 2006

**Newsflash: Supplementary Rules Issued for Hong Kong and Macao
Invested Enterprises**

1. New Legislation

On 9 January 2006, in order to encourage closer economic relations between Hong Kong / Macao and the mainland, the Ministry of Commerce (MOFCOM) promulgated the *Supplementary Rules regarding the Measures for the Administration of Foreign Investment in the Commercial Sector (Supplementary Rules)*, with immediate effect. Below is a brief summary of some of the key changes arising from the Supplementary Rules.

2. Less Restrictions on Commissioned Agents

Under the *Measures on the Administration of Foreign Investment in the Commercial Sector (FICE Measures)*, effective as of 1 June 2004, only wholesale foreign-invested enterprises (FIEs) were permitted to act as commissioned agents for purposes of engaging in domestic distribution and related services (excluding auctions).

However, the Supplementary Rules now permit Hong Kong and Macao retail FIEs to act as commissioned agents for domestic distribution and related services in respect of chemical fertilizers, processed oil and crude oil.

3. Expansion of Distribution Rights

While the FICE Measures will continue to prohibit FIEs from engaging in the retail and wholesale distribution of chemical fertilizers until 11 December 2006, the Supplementary Rules now permit Hong Kong and Macao FIEs to engage in the retail and wholesale distribution of chemical fertilizers an advance of such date.

4. Lowered Restrictions on FIEs' Permitted Equity in JVs

Foreign investors (including Hong Kong and Macao enterprises) are only permitted under the FICE Measures to hold a 49% equity interest in a JV that operates more than 30 outlets that purchase certain products - namely, tobacco, books, newspapers, magazines, automobiles (prohibited up until 11 December 2006), pharmaceutical products, pesticides, mulching films, chemical fertilizers, processed oil, foodstuff, vegetable cooking oil, sugar or cotton - from different suppliers and then distribute the same under different brand names.

Hong Kong and Macao FIEs, on the other hand, are now permitted under the Supplementary Rules to hold a 51% equity interest in such JVs.

5. **Implementation**

Based on our discussions with the Shanghai branch of MOFCOM, Hong Kong and Macao FIEs may now submit applications to engage in these previously restricted activities.

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

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