



Investing in China's FTZ – A Guide for Foreign Invested Enterprises

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An Introduction

The Shanghai Free Trade Zone was the first Free Trade Zone (“FTZ”) in China, having been launched on 29th September 2013. Subsequently three other FTZs have been opened owing to the progress made in the Shanghai pilot zone. The FTZ covers an area of 29 square kilometres (11 sq mi) where goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities.

The major goal for the Shanghai Free Trade Zone is to shift the role of the government from administrative to supervisory and to further promote trade by encouraging Multi-National Companies (“MNCs”) to set up their Asia-Pacific regional headquarters in Shanghai. In the FTZ, there are fewer restrictions on RMB convertibility for capital account items, which in turn allows for much easier cross-border financing and fund transfers than outside of the FTZ.

The Chinese Government has six areas of focus for the FTZ, these are:

- Financial services
- Shipping and Logistics
- Commercial Trade
- Professional services such as law and engineering
- Culture and Entertainment
- Social Services including education and healthcare.

Customs formalities are simplified in the FTZ, with certain imported goods being exempted from import tax. In addition, declaration on goods can be done 14 days after entry to China. Since the opening up of the Shanghai FTZ, a lot of investment has gone into streamlining the processes to enable a quick and easy for foreign firms to do business. One example of this is an internet based registration system which has been introduced for enterprises. This has shortened the registration period from 29 to 5 days. Another advantage for foreign investors is risk management and the FTZ eliminates the hefty registered capital requirement that is enforced in China. This then permits direct investment into China without meeting these traditional and occasionally cumbersome standards.

The Vision

The Chinese Government has planned for the future of the Shanghai FTZ to continue to grow following the model of Hong Kong. While the Shanghai FTZ originally integrated four existing bonded zones in Pudong, (namely the Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Comprehensive Free Trade Zone), it has continued to grow and develop. In April 2015, the FTZ expanded from its original 29 sq. km to more than 120 sq. km. This expansion bonds the zone with other important financial hubs, including the Lujiazui Financial Zone, Jinqiao Development Zone and Zhangjiang Hi-tech Park. The Shanghai FTZ thus encompasses an extremely large amount of the city's financial capital. This expansion is reflective of the sentiment that the Chinese government will only continue to liberalize the market in this area, allowing foreign capital to flow freely across the border. This will undoubtedly result in future opportunities for foreign companies to invest in China through the FTZ structure with minimized restrictions.

Shanghai FTZ: The Zones

Shanghai: The Zones

There are Four Key Areas comprising of the Shanghai FTZ. These are shown in the below map and then illustrated:



Waigaoqiao Free Trade Zone

Founded in June, 1990, the Waigaoqiao Free Trade Zone was the first Free Trade Zone in China, and remains at the forefront of both the nation, and Shanghai's economic development. It's planning area totals approximately 10 sq. km, making it the largest free trade zone in China. It is located in the North East section of the Pudong District, and is accessible via Metro Line 6. Since its establishment, it has been at the forefront of international trade, serving as a centre for advanced manufacturing, modern logistics and commodities trading bonded in one area.

Specific advantages for companies include a unified management system that allows the unlimited import and export of foreign goods free of tariff, import tax, license examination, and other customs supervisory practices that tend to slow the speed of commerce.

Since its inception the free trade zone has continued to grow and expand in order to maintain its position as a global leader in international commerce. In 2009, updates were put into place designed to maintain favorable economic growth, provided an additional value of 99.3 billion RMB to the zone's enterprises, with most of the growth occurring in the international trade and logistics sector. This development exemplifies the ability of the free trade zone to stimulate economic growth, even amidst a global financial crisis. The administration of the free trade zone was able to dodge economic stagnation by continuing to expand its 113 operation centers, allowing them to become the premiere center of international trade in Northeast Asia.

Since its inception, Waigaoqiao Free Trade Zone has attracted over 9,000 foreign companies as a result of the favorable economic and political environment, and continues to be one of the most dynamic business centers in the world.

Waigaoqiao Free Trade Logistics Park

The Shanghai Waigaoqiao Free Trade Logistics Park is China's first mainland logistics park that links a bonded zone with a port area. This is a significant step in the direction of allowing the Waigaoqiao Free Trade Zone to function similarly to Hong Kong. This development will expand the Zone's capabilities in the sector of cargo transferring, distribution, procurement and warehousing, allowing the area to further enhance its status as the premier international shipping hub in the world.

In terms of advantages for foreign businesses, the Waigaoqiao Free Trade Logistics Park expands on the innumerable advantages already presented by the Waigaoqiao Free Trade Zone in increasing efficiency and providing additional incentives for business.

Goods entering the park will immediately be regarded as exports, qualifying them for tax rebates, whereas before only goods leaving the port could be considered exports. Goods in the park may also be stored in warehouses and shipped when necessary by taking advantage of the zone's transit system. With major international logistics companies setting up in the Waigaoqiao Logistics Park, it will undoubtedly continue to be a center of international trade and bolster Shanghai's already rapidly expanding and dynamic economy.

Yangshan Free Trade Port Area

The Yangshan Free Trade Port Area was established in December 2005 and is a special functional economic zone under the supervision of Chinese Customs. It spreads into Shanghai and Zhejiang regions calling for greater commercial cooperation between both provinces. In 2009, the State Council decided to increase the responsibilities of the port area by encouraging it to increase capacity for international shipping.

The Yangshan Free Trade Port Area has an operational area of 8.14 km² and is linked with the city by Metro Line 16. The area consists of the Shanghai Luchao Port, East China Sea Bridge and Yangshan Port.

Being a port area, this provides an optimal location for the development of international shipping. It also provides opportunities for all parts of the shipping business. The key industries include transfer & consolidation, bonded demonstration, bonded warehouse, distribution, ship leasing and futures bonded delivery.

Pudong Airport Comprehensive Free Trade Zone

The Pudong Airport Comprehensive Free Trade Zone was approved by the State Council on 3rd July 2009. It is located on the west side of Pudong International Airport's Runway 3 and extends out to the Yangshan Free Trade Port Area to the south, and the Waigaoqiao Free Trade Zone to the north.

This part of the Free Trade Zone encompasses an area of 3.59 km² with a closed area of 1.6 km². This section of the Free Trade Zone is also easily accessible and linked to the city by both Metro Line 2 and the Maglev High-Speed train.

This strategic position entails a focus on the aviation industry by specializing in the technical aspects of developing new aviation technologies and also establishing a business platform for distribution centers and aircraft leasing.

Other FTZs

The development of the Shanghai FTZ and its blueprint for success led to the establishment of other key FTZs. These are outlined below:

Guangdong Free Trade Zone

The Guangdong Free Trade Zone was officially opened in April of 2015, and is located in the Nansha District of Guangzhou. The FTZ is approximately 116 sq. km and extends into Qianhai-Shekou and Hengqin areas. The Free Trade Zone operates similarly to the other Chinese Free Trade Zones, offering a more open regulatory environment to encourage more foreign investment in the area. The establishment of the FTZ allows for the formation of foreign-owned shipping enterprises in the Pearl River Delta, encourages enterprises and financial institutions to borrow money overseas, and encourages the cooperation of businesses in Hong Kong and Macau to invest in the Pearl River Delta area. Looking forward, these developments will certainly play a key role in the continued growth of the Pearl River Delta economy.

Starting on July 1st, 2016, a new regulation was passed by the government to encourage innovation within the FTZ. The main development is additional legal protections for innovation offered by the government. It also provides measures to insure against the risk associated with innovation. The regulation also gives priority to businesses that are cooperating with Guangdong, Hong Kong, and Macau.

Tianjin Free Trade Zone

The China (Tianjin) Pilot Free Trade Zone (TJFTZ) officially launched in April 2015 as part of China's second batch of free trade zones following the establishment of the Shanghai FTZ. Its strategic positioning is intended to make it an open platform for the collaborative development of the Beijing-Tianjin-Hebei region. TJFTZ will fully leverage Tianjin Port's advantages in being able to serve overseas markets, including Northeast Asia, in order to promote economic growth in Beijing, Hebei and other inland regions. Situated at the eastern end of the Eurasian land bridge, Tianjin benefits multi-modal transportation and other infrastructure for serving trade between countries and regions along the land bridge. It is an important pivot on the China-Mongolia-Russia Economic Corridor, which is integral to the Belt and Road Initiative.

The liberalisation measures involved in the TJFTZ will help Hong Kong companies to attain footholds in this region. Besides benefitting from policies such as lower entry thresholds for foreign investment and simpler procedures for foreign investors, Hong Kong companies – across sectors including internet value-added services, accounting and cultural industries – will be able to make use of the preferential treatment offered by the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA). The TJFTZ will promote cross-border e-commerce, facilitate parallel car imports, improve international shipping and logistics services, and beef up financial leasing. It is an ideal platform for Hong Kong companies intending to penetrate mainland markets, especially in North China.

Fujian Free Trade Zone

The Fujian Free trade zone (FTZ) was implemented in April 2015. Fujian is one of four free trade agreement zones which also includes

Shanghai, Tianjin and Guangdong. The Fujian trade zone consists of three key areas within the province which are as follows:

Pingtan - A 43sqkm area which specialises in tourism, trade and investments.

Xiamen - A 43.78sqkm area which include two economic trade zones the Xiangyu bonded zone and the Xiamen Haicang bonded port. This area focuses on building a China-Taiwan regional financial services sector and a regional aviation hub.

Fuzhou - This is the capital city of the Fujian province, it consists of the Fuzhou bonded zone, export processing zone and Fuzhou bonded port. The area specialises in advanced manufacturing, aviation and professional services.

FTZ Negative List for FIEs (Updated April 2015)

The State Council has ratified a foreign investor negative list for the four pilot free trade zones in Shanghai, Guangdong, Tianjin and Fujian. The below table highlights the 16 industries which are restricted areas for foreign investment (including Hong Kong, Macao and Taiwan):

Source: Circular of the General Office of the State Council on Issuing the Special Administrative Measures (Negative List) for Foreign Investment Access to Pilot Free Trade Zones, Guo Ban Fa [2015] No.23, April 8, 2015

No.	Industry	Special management measures
A. Agriculture, Forestry, Animal Husbandry and Fishery		
A01	Seed Industry	<p>1. Prohibited investment in the R&D, breeding and planting of rare Chinese varieties as well as the production of relevant breeding materials (including quality genes of planting, animal husbandry and aquaculture).</p> <p>2. Prohibited investment in the breeding of genetically modified crop seeds, breeding stock, poultry and aquatic fingerlings and the production of genetically modified seeds (seedlings).</p> <p>3. Restricted investment in the seed selection and breeding of new crop varieties which must be controlled by a Chinese party.</p> <p>4. Prohibited collection of genetic resources of crops without an approval.</p>
A02	Fishing Industry	<p>5. The operation of fishing business in waters under the jurisdiction of China must be approved by the Chinese government.</p> <p>6. The application for quotas for fishing vessels and fishing gear with respect to a fishing vessel brought in by cooperative operation or a joint venture and involved in an operation in the water under the jurisdiction of China shall not be approved.</p>
B. Mining Industry		
B03	Exploration & Development in the Exclusive Economic Zones and Continental Shelves	7. Any natural resources exploration and development activity in the exclusive economic zones and continental shelves of China, or any drilling in China's continental shelves for any purposes must be approved by the Chinese government.
B04	Oil and Natural Gas Mining	8. The exploration and development of oil and natural gas (including oil shale, oil sands, shale gas, coal bed gas and other unconventional oil and gas) are limited to joint venture and cooperative operation.
B05	Rare Earth & Rare Mineral Mining and Beneficiation	<p>9. Prohibited investment in the exploration, mining and beneficiation of rare earth; without permission is prohibited. It is forbidden to enter rare earth mine sites or to acquire geological information on the mines, ore samples and production technologies.</p> <p>10. Prohibited investment in the prospecting and mining of Tungsten, Molybdenum, Tin, Antimony and Fluorite.</p> <p>11. Prohibited investment in the prospecting, mining and beneficiation of radioactive minerals.</p>
B06	Metal & Non-Metal Ore Mining and Beneficiation	<p>12. Restricted investment in the prospecting and mining of precious metals (gold, silver and platinum).</p> <p>13. Restricted investment in the mining and beneficiation of lithium mineral.</p> <p>14. Restricted investment in the prospecting and mining of graphite.</p>

C. Manufacturing Industry		
C07	Aeronautical Manufacturing	<p>15. Investment in the design, manufacturing and repair of civil main line aircraft and regional aircraft, design and manufacturing of civil helicopters with a capacity of 3 T or above, manufacturing of ground-effect and water-effect aircrafts and the design and manufacturing of unmanned aerial vehicles and aerostatics must be controlled by Chinese party.</p> <p>16. Investment in the design, manufacturing and repair of general-purpose aircraft shall be only subject to joint venture or cooperative operation.</p>
C08	Shipbuilding	<p>17. Investment in the manufacturing of low and medium-speed diesel engine and bent axle of ships shall be controlled by Chinese party.</p> <p>18. Investment in the manufacturing and repair of marine engineering equipment (including modules) must be controlled by Chinese party.</p> <p>19. Restricted investment in the repair, design and manufacturing of ships (including sub-section operation) must be controlled by Chinese party.</p>
C09	Automobile Manufacturing	<p>20. In terms of restricted investment in the manufacturing of finished automobiles and special-purpose motor vehicles, the shares controlled by Chinese party shall not be less than 50%; one foreign company is allowed to establish up to two (including two) joint venture enterprises engaged in the manufacturing of similar finished automobile (passenger cars or commercial vehicles) in China. In case of a merger of other domestic automobile manufacturing enterprises with the Chinese joint venture partner, this is free from such restriction.</p> <p>21. New all-electric battery passenger vehicle manufacturing enterprises must have their own product brands and proprietary intellectual property rights as well as authorised relevant patents for invention.</p>
C10	Railway Transportation Equipment Manufacturing	<p>22. Investment in the manufacturing of railway transportation equipment must be subject to joint venture or cooperative operation (except for the research, development, design and manufacturing of passenger service facilities and equipment matched with high-speed railways, railway passenger dedicated lines and inter-urban railways; research, development, design and manufacturing of rail and bridge equipment relating to high-speed railways, railway passenger dedicated lines and inter-urban railways, the manufacturing of electrified railway applications and equipment and the manufacturing of sewerage equipment for passenger railway coaches).</p> <p>23. The domestication rate of urban rail transit project equipment must reach 70% or above.</p>
C11	Communication Equipment Manufacturing	<p>24. Investment in the design and manufacturing of civil satellites and manufacturing of effective load of civil satellites shall be controlled by Chinese party.</p> <p>25. Restricted investment in the manufacturing of ground receiving facilities and key parts for satellite television broadcasting.</p>
C12	Smelting & Pressing Processing of Mineral Products	<p>26. Restricted investment in the smelting of rare metals such as Tungsten, Molybdenum, Tin (excluding Tin Compounds) and Antimony (including antimony oxide and antimony sulfide).</p> <p>27. Restricted investment in the earth metallurgy and separation (limited to joint venture and cooperative operation).</p> <p>28. Prohibited investment in the smelting and processing of radioactive minerals.</p>

C13	Pharmaceutical Manufacturing	<p>29. Prohibited investment in the processing of traditional Chinese medicinal materials listed in the 'Regulations on the Protection of Wild Medicinal Resources' and the 'Directory of China's Rare and Endangered Plants'.</p> <p>30. Prohibited investment in the application of such processing techniques of traditional Chinese medicine decoction pieces including steaming, frying, cauterizing and calcining and manufacturing of Chinese patent medicine products with secret prescriptions.</p>
C14	Other Manufacturing Industries	31. Prohibited investment in ivory carving, tiger bone processing and production of Chinese art paper and black ink sticks as well as other traditional handicrafts of China.
D. Production and Supply of Electric Power, Heating Power, Gas and Water		
D15	Atomic Energy	<p>32. Investment in the construction and operation of nuclear power plants must be controlled by the Chinese party.</p> <p>33. The production, operation, import and export of nuclear fuels, nuclear materials, uranium products and the relevant nuclear technologies shall be monopolised by qualified central enterprises.</p> <p>34. Only state-owned or state-controlled enterprises may engage in the activities of disposing radioactive solid waste.</p>
D16	Pipe Network Facilities	<p>35. Restricted investment in the construction and operation of urban gas pipeline networks, heating power pipe networks and water supply and sewage pipe networks in a city with more than 500,000 residents must be controlled by Chinese party.</p> <p>36. Investment in the construction and operation of the power grid must be controlled by the Chinese party.</p>
E. Wholesale and Retail Industry		
E17	Monopoly and Franchise	<p>37. The monopoly system is applicable to the tobacco industry. The production, sale, import and export of tobacco monopoly commodities (referring to the cigarette, cigar, cut tobacco, re-dried leaf tobacco, leaf tobacco, cigarette paper, filter rod, filter tow and tobacco machinery) shall be subject to a monopoly administration and the tobacco monopoly license system. Prohibited investment in the wholesale and retail of leaf tobacco, cigarettes, re-dried leaf tobacco and other tobacco products.</p> <p>38. The monopoly system is applicable to the state grain (oil) reserves. The China Grain Reserves Corporation is responsible for specific work relating to the procurement, reserve, operation and administration of state grain reserve (including state oil reserves).</p> <p>39. The sale of tax-free commodities shall be subject to a franchise and centralised and unified management.</p> <p>40. Lottery issuance and sales shall be subject to a franchise, and foreign lotteries are prohibited from being issued and sold within the territory of the People's Republic of China.</p>
F. Communication and Transportation, Storage and Mail		
F18	Road transportation	41. Restricted investment in highway passenger transportation companies.
F19	Railway transportation	<p>42. The investment in the construction and operation of the trunk railway network must be controlled by a Chinese party.</p> <p>43. Restricted investment in railway passenger transportation companies must be controlled by the Chinese party.</p>

F20	Water transportation	<p>44. Restricted investment in water transportation companies (except for international shipping enterprises established in China (Shanghai) Pilot Free Trade Zone) must be controlled by Chinese party, and the operation of the following business is prohibited: (1) the domestic water transportation business of China, including the operation of the water transportation business in disguised form of renting Chinese ships or shipping space; and (2) the domestic ship management, water passenger transportation agency and water freight transportation agency business.</p> <p>45. The proportion of foreign capital in the investment in a shipping agency must not exceed 51%.</p> <p>46. Restricted investment in ocean shipping tally business is limited to joint venture and cooperative operation.</p> <p>47. A water transportation business operator shall not apply a foreign ship to the operation of the domestic water transport business, except under the particular circumstances permitted by the Chinese government.</p> <p>48. The maritime transportation and towage services among Chinese ports shall be operated with the ships where the national flag of the People's Republic of China is flying. The operation of maritime transportation and towage services among Chinese ports through foreign ships must be subject to the approval of the Chinese government.</p>
F21	Public Air Transportation	<p>49. The shares of a public air transportation enterprise must be controlled by a Chinese party, and the investment proportion of a single foreign party (including the affiliated enterprises thereof) investor investing in the public air transportation business must not exceed 25%.</p> <p>50. The chairman of the board of directors and legal representatives of a public air transportation enterprise shall be Chinese citizens.</p> <p>51. A foreign aircraft operator shall not operate transportation business between two places within Chinese territory.</p> <p>52. Only the carrier designated by the Chinese party can run a bilateral air transportation market as specified by a bilateral transportation agreement concluded between Chinese party and the other contracting party.</p>
F22	General Aviation	<p>53. The investment in the form of a joint venture in general aviation enterprises specialising in the agriculture, forestry and fishery operations is allowed, and the shares of other general aviation enterprises must be controlled by Chinese party.</p> <p>54. A general aviation enterprise's legal representatives shall be Chinese citizens.</p> <p>55. The foreign aircrafts or foreign personnel are prohibited from being involved in general aviation flight in significant professional fields such as aerial photography, remote sensing surveys and mineral resource exploration.</p>
F23	Civil Airport & Air Traffic Control	<p>56. Prohibited investment in and operation of Air Traffic Control systems.</p> <p>57. Investment in the construction and operation of civil airport must be relatively controlled by Chinese party.</p>
F24	Mail	<p>58. Prohibited investment in postal enterprises and in the operation of postal services.</p> <p>59. Prohibited investment in the domestic express business of engaging in the operation of mail services.</p>

G. Information Transmission, Software and Information Technology Services		
G25	Telecommunication Transmission Services	60. Restricted investment in telecommunication companies, limited to the telecommunication business as specified in China's WTO accession commitments; the proportion of foreign investment in a value-added telecommunication business (excluding the e-commerce business) shall not exceed 50%; the basic telecommunication business operator must be a company specialising in the basic telecommunication business that is established in accordance with the law and whose equities or shares held by the Chinese party shall not be less than 51%.
G26	Internet and Related Services	<p>61. Prohibited investment in the internet news services, online publishing services, online audio-visual program services, internet culture operations (excluding music), business places of internet access services and internet public-oriented information releasing services (excluding the contents of the abovementioned services that are permitted under China's WTO accession commitments).</p> <p>62. Prohibited engagement in the activities of compiling and publishing internet maps (excluding the contents of the abovementioned services that are permitted under China's WTO accession commitments).</p> <p>63. Any cooperation involving the internet news information service business between an internet news information service unit and a foreign investor shall be subject to a safety assessment by the Chinese Government.</p>
H. Finance		
H27	Requirements on the Types of Institutional Banking Shareholders	<p>64. Banking financial institutions invested by a foreign investor shall be financial institutions or organisations of particular types. The specific requirements are as follows:</p> <p>(1) The shareholder of a wholly foreign-funded bank and the foreign shareholder of a joint Chinese-foreign bank shall be the financial institutions, and the sole or controlling/principle shareholder of foreign party shall be the commercial bank;</p> <p>(2) The investors of Chinese commercial banks and trust companies shall be the financial institutions;</p> <p>(3) The investors of the rural commercial banks, rural cooperative banks, rural credit (cooperative) associations and village banks shall be the foreign banks;</p> <p>(4) The investors of financial lease companies shall be the financial institutions or financing lease companies;</p> <p>(5) The principal sponsors of consumer finance companies shall be the financial institutions;</p> <p>(6) The investors of money brokers shall be the money brokers;</p> <p>(7) The investors of financial asset management companies shall be the financial institutions, which shall not participate in the foundation of financial asset management companies by means of sponsorship; and</p> <p>(8) The investors not clearly stipulated by the laws and regulations shall be the financial institutions.</p>

H28	Requirements on the qualifications in banking	<p>65. The foreign investors investing in banking financial institutions shall meet the requirements on their total assets; the foreign investors include:</p> <p>(1) The sole or controlling/principle shareholder of a foreign party of a foreign-funded corporation bank, the parent banks of foreign bank branches;</p> <p>(2) The foreign investors of Chinese commercial banks, rural commercial banks, rural cooperative banks, rural credit (cooperative) associations, village banks, trust companies, financial lease companies, finance companies, and financial asset management companies; and</p> <p>(3) Other banking financial institutions' foreign investors not clearly prescribed by the laws and regulations as inapplicable foreign investors.</p> <p>66. The foreign investors investing in money brokers must meet the specific conditions in terms of the relevant operation terms, network of global institutions, info-communication network and other points as required.</p>
H29	Requirements on the Shareholding Proportion in Banking	<p>67. Foreign investors taking a stake in Chinese commercial banks, rural commercial banks, rural cooperative banks, rural credit (cooperative) associations, financial asset management companies and other banking financial institutions shall be subject to the limitations on the shareholding ratio of a single shareholder and the total shareholding proportion.</p>
H30	Foreign Banks	<p>68. In addition to the above requirements on the types of institutional shareholders and qualifications, a foreign bank shall also meet the following conditions:</p> <p>(1) the branches of the foreign bank shall not engage in certain business as stipulated by the Laws of the People's Republic of China on Commercial Banks, including "issuing, cashing and undertaking the sale of government bonds as agents", "handling receipts and payments as agents " and "engaging in bank card business"; except for the business of absorbing a fixed time deposit of no less than CNY1 million per citizen within Chinese territory, the branches of the foreign bank shall not operate RMB business targeting citizens within Chinese territory;</p> <p>(2) the headquarters of the foreign bank shall allocate the operating capital to the branches without compensation, and a part of the operating capital shall exist in a specific form and meet the relevant administration requirements;</p> <p>(3) the branches of the foreign bank must meet the requirements on the operating capital adequacy (8%); and</p> <p>(4) The foreign bank that is permitted to operate the RMB business must meet the minimum requirements on opening times.</p>
H31	Futures Companies	<p>69. Restricted investment in futures companies shall be controlled by the Chinese party.</p>
H32	Securities Companies	<p>70. Restricted investment in securities companies, with a proportion of foreign capital under 49%.</p> <p>71. The proportion of equity held (including direct holding and indirect control) by a single foreign investor in a listed domestic-funded securities company shall not exceed 20%; the proportion of equity held (including direct holding and indirect control) by all foreign investors in a listed domestic-funded securities company shall not exceed 25%.</p>
H33	Securities Investment Fund Management Companies	<p>72. Restricted investment in securities investment fund management companies, with a proportion of foreign capital under 49%.</p>
H34	Securities & Futures Business	<p>73. Prohibition on becoming the regular member of a stock exchange and the member of a futures exchange.</p> <p>74. Prohibition on filing an application for opening an A share security account and futures account.</p>

H35	Establishment of an Insurance Institution	<p>75. Restricted investment in insurance companies (the proportion of foreign capital in a life insurance company shall not exceed 50%), and the proportion of total shares held by domestic insurance companies in insurance asset management companies shall not be less than 75%.</p> <p>76. The foreign insurance company that files an application for establishment of a foreign-funded insurance company and the foreign financial institution that makes equity investment in an insurance company (excluding the purchase of shares of a listed insurance company on a stock exchange) must meet the conditions stipulated by the insurance regulatory authorities of China in terms of business term, total assets and others.</p>
H36	Insurance Business	<p>77. A foreign-funded insurance company shall not engage in the business of ceding in or out the reinsurance with its affiliated enterprises in the case of absence of an approval from the Chinese insurance regulatory authorities.</p>
I. Leasing and Business Service		
I37	Accounting & Audit Services	<p>78. The Principal Partner of an accounting firm (special general partnership) (or top management members) shall have Chinese nationality.</p>
I38	Legal Services	<p>79. The foreign law office can enter China only through the establishment of a representative organisation; the establishment of representative organisations in China and dispatching of representatives to China shall be subject to the permission of the judicial administrative departments of China.</p> <p>80. Prohibited engagement in Chinese legal affairs; prohibition on becoming the partner of a domestic law office.</p> <p>81. The representative organization in China of a foreign law office shall not recruit any Chinese practicing lawyer, and the supporting personnel recruited shall not provide legal services for the parties concerned in a case.</p>
I39	Statistical Investigation	<p>82. Implement the qualification certification system for foreign-related investigation institutions and the system of examination and approval for foreign-related social survey projects.</p> <p>83. Prohibited investment in undertaking social surveys.</p> <p>84. Restricted investment in market surveys, limited to joint venture and cooperative operation; specifically, investment in the broadcasting and television listening and rating survey must be controlled by a Chinese party.</p> <p>85. Restricted investment in ratings services.</p>
I40	Other Commercial Services	<p>86. The legal representative of an intermediary agency for entry and exit for personal reasons must be a Chinese citizen having a permanent residence in China and being of full capacity for civil conduct.</p>

J. Scientific Research and Technical Services		
J41	Professional Technical Services	<p>87. Prohibited investment in the geodetic surveying, hydrographic surveying and charting, surveying and mapping via aerial photography, surveying and mapping of administrative area borders, compiling of the topographical maps, world administrative maps, national administrative maps, administrative maps at the provincial level or below, national school maps, local school maps and true three-dimensional maps, compiling of navigation electronic maps and regional investigations in terms of geological mapping, mineral geology, geophysics, geochemistry, hydrogeology, environmental geology, geological disasters and remote sensing geology.</p> <p>88. Restricted investment in surveying and charting companies must be controlled by Chinese party.</p> <p>89. Prohibited investment in the development and application of technologies of human stem cell and gene diagnosis and treatment.</p> <p>90. Prohibited establishment and operation of humanistic and social science research institutions.</p>
K. Water Conservancy, Environment and Public Facility Management		
K42	Animal & Plant Resource Protection	<p>91. Prohibited investment in the development of wildlife resources originated in China and under the national protection.</p> <p>92. Prohibited collection or acquisition of wild plants under the State's key protection.</p>
L. Education		
L43	Education	<p>93. The foreign educational institutions, other organisations or individuals shall not establish a school or educational institutions (excluding non-educational system vocational skill training institutions) with Chinese citizens as primary enrollment targets.</p> <p>94. The foreign educational institutions may, in concert with Chinese educational institutions, establish education institutions with Chinese citizens as main enrollment targets; a Sino-Foreign cooperative educational institution may set up various educational institutions at all levels through cooperation, however,</p> <p>(1) it shall not establish the institutions offering compulsory education and education in special fields such as military, police, politics and the Party school;</p> <p>(2) foreign religious organizations, institutions, academies and staff shall not engage in the cooperative operation of schools in China, and a Sino-foreign cooperative educational institution shall not carry out religious education and religious activities; and</p> <p>(3) the restricted investment in general senior high school educational institutions, institutions of higher education and preschool education shall be controlled by a Chinese party (the principals and principal administrators shall have Chinese nationality and a permanent residence in China; the Chinese members of the board of governors, the board of directors or the joint management committee shall account for not less than one second of the total members; the educational and teaching activities and course materials shall meet the relevant Chinese laws and regulations and the relevant provisions).</p>
M. Health and Social Work		
M44	Medical Treatment	<p>95. Restricted investment in medical institutions, limited to joint venture and cooperative operation.</p>

N. Culture, Sports and Entertainment		
N45	Radio & Television Broadcasting, Transmission, Production & Operation	<p>96. Prohibited investment in the establishment and operation of all levels of broadcasting stations, television stations, radio and television frequency, channel and time frame programs, radio and television transmission network (including the broadcasting and television radiating stations, rebroadcasting stations (including transposer stations and signal receiving and transmission stations), broadcasting and TV satellites, satellite uplink stations, satellite signal receiving and rebroadcasting stations, microwave stations, monitoring stations and cable broadcasting and television transmission network, etc.) and prohibited engagement in the video on demand business of radio and TV and in the provision of services of installation of the ground receiving facilities for satellite television broadcasting.</p> <p>97. Prohibited investment in radio and television program production and operation companies.</p> <p>98. The introduction of foreign satellite channel shall be subject to the examination and approval system. An application for bringing in the foreign movies and television dramas and bringing in other foreign television programs by satellite transmission shall be filed by the entities designated by the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China.</p> <p>99. TV series (including TV cartoon programs) produced through Chinese-foreign cooperation shall be subject to the licensing system.</p>
N46	Press and Publishing, Radio, Film & Television, & Financial Information	<p>100. Prohibited investment in the establishment of press agencies, newspapers and periodicals offices, publishing houses and news agencies.</p> <p>101. The establishment of a resident news agency in China and dispatching of resident correspondents to China by a foreign news agency shall be subject to the approval of the Chinese government.</p> <p>102. The provision of news services within the territory of China by a foreign press agency shall be subject to an examination and approval of the Chinese government.</p> <p>103. Prohibited investment in the operation of publishing and production of books, newspapers, periodicals, audio-visual products and electronic publications; prohibited operation of the layout of newspapers and periodicals.</p> <p>104. The business cooperation between the Chinese and foreign news agencies and the Sino-foreign cooperative news publishing projects must be guided by Chinese party and be subject to the approval of the Chinese government (upon the approval of the Chinese government, the domestic scientific and technological periodicals and foreign periodicals are allowed to set up a copyright cooperation relationship, with a cooperation period of no more than five years; where the cooperation period expires and needs to be extended, another application shall be filed for approval. The Chinese party has the right of giving final approval for the contents, and the foreign party shall not participate in the activities of compiling and publishing of Chinese periodicals).</p> <p>105. Prohibited engagement in the import of movies, radio and television programs, artworks and digital bibliographic database and its publications as well as other cultural products (excluding the contents of the abovementioned services that are permitted under China's WTO accession commitments).</p> <p>106. The restricted investment in the printing of publications must be controlled by the Chinese party.</p> <p>107. The provision of financial information services within the territory of China without the approval of the Chinese government is prohibited.</p> <p>108. The overseas media (including the newspaper offices, periodical presses, book publishing houses, audio-visual publishing houses, electronic publication publishing companies and radio, film, television and other mass communication agencies of foreign countries and of Hong Kong, Macao and Taiwan) shall not set up agencies or editorial departments within the territory of China. If they need to set up a working body, it shall be subject to an examination and approval.</p>

N47	Film Production, Distribution & Projection	<p>109. Prohibited investment in movie production companies, distribution companies and cinema companies.</p> <p>110. The Chinese government adopts a licensing system for movies produced through Chinese-foreign cooperation.</p> <p>111. Investment in the construction and operation of a cinema shall be controlled by the Chinese party. The films shall be projected according to the proportion of time for projection of domestic movies and imported movies as stipulated by the Chinese government. The time of projection of domestic movies at a projection unit in a year shall not be less than two thirds of the annual total projection time.</p>
N48	Intangible Cultural Heritage, Cultural Relics & Archaeology	<p>112. Prohibited investment in and operation of enterprises selling cultural relics by auction and purchasing and selling cultural relics.</p> <p>113. Prohibited investment in and operation of state-owned cultural relic museums.</p> <p>114. The cultural relics immovable and banned by the State from exportation are prohibited from being transferred, pledged and rented to foreigners.</p> <p>115. Prohibited establishment and operation of intangible cultural heritage investigation agencies.</p> <p>116. Foreign organizations or individuals carrying out the intangible cultural heritage investigation and archaeological investigation, exploration and excavation within the territory of China shall take the form of cooperation with a Chinese party and be subject to a special examination and approval.</p>
N49	Culture & Entertainment	<p>117. Prohibited establishment of cultural and artistic performance groups.</p> <p>118. The restricted investment in the performance brokerage institutions must be controlled by a Chinese party (excluding those providing services for the provinces and cities where they are located).</p> <p>119. Restricted investment in the construction and operation of large theme parks.</p>
O. All Industries		
O50	All industries	<p>120. Prohibition on acting as individual businesses, investors of sole proprietorship enterprises and members of farmers' professional cooperatives to engage in operational activities.</p> <p>121. As for the banned items as prescribed by the Catalogue for the Guidance of Foreign Investment Industries and the items marked with the words "limited to joint venture", "limited to cooperative operation", "limited to joint venture and cooperative operation", "controlled by Chinese party", "relatively controlled by Chinese party" and subject to the requirements on the proportion of foreign capital, a foreign-funded partnership firm shall not be established.</p> <p>122. Where the merger and acquisition of domestic enterprises by the foreign investors, the strategic investment from the foreign investors in listed companies, and the foreign investors' contribution with the equity they hold in the enterprises within the territory of China involve the matters relating to the establishment of foreign investment projects and enterprises as well as the alternation thereof, the existing provisions shall apply.</p>

Relaxation of Rules in China's Free Trade Zones (July 2016)

Background for Relaxation of FTZ Rules for FIEs

The State Council has temporarily implemented 18 administrative regulations in pilot free trade zones such as Fujian and Shanghai. The regulations consist of laws which have an emphasis on foreign investment enterprise. The State Council has issued 4 pieces of documentation which focus on the decisions of the State Council on Investment System Reform. The documents contain 51 regulations for the 4 department rules approved by the State Council such as 'The Foreign Investment Industrial Guidance Catalogue' (2015).

The Main Adjustments

The FTZ adjustments have modified a large array of procedures involving foreign investments such as approval and registration systems. FTZs such as Guangdong, Tianjin, Fujian and Shanghai have expanded their free trade areas by suspending the implementation of file management systems for merger divisions of Foreign – Invested Enterprises (“FIEs”).

In the area of foreign investment, "decision" relates to adjustments include: the negative list of areas in addition to temporarily stop the implementation of foreign investment projects approved (except for the State Council to retain domestic investment projects approved), to record management.

FTZ Foreign Investment Reforms

In the area of foreign investment, the following adjustments were made:

- The temporary abolition of the approval system.
- Application for the filing management system for foreign investment projects. (Domestic investment projects still required State council approval).

Additional adjustments to FTZs and permits for Wholly Foreign Owned Enterprises (“WFOE”) are summarized as follows:

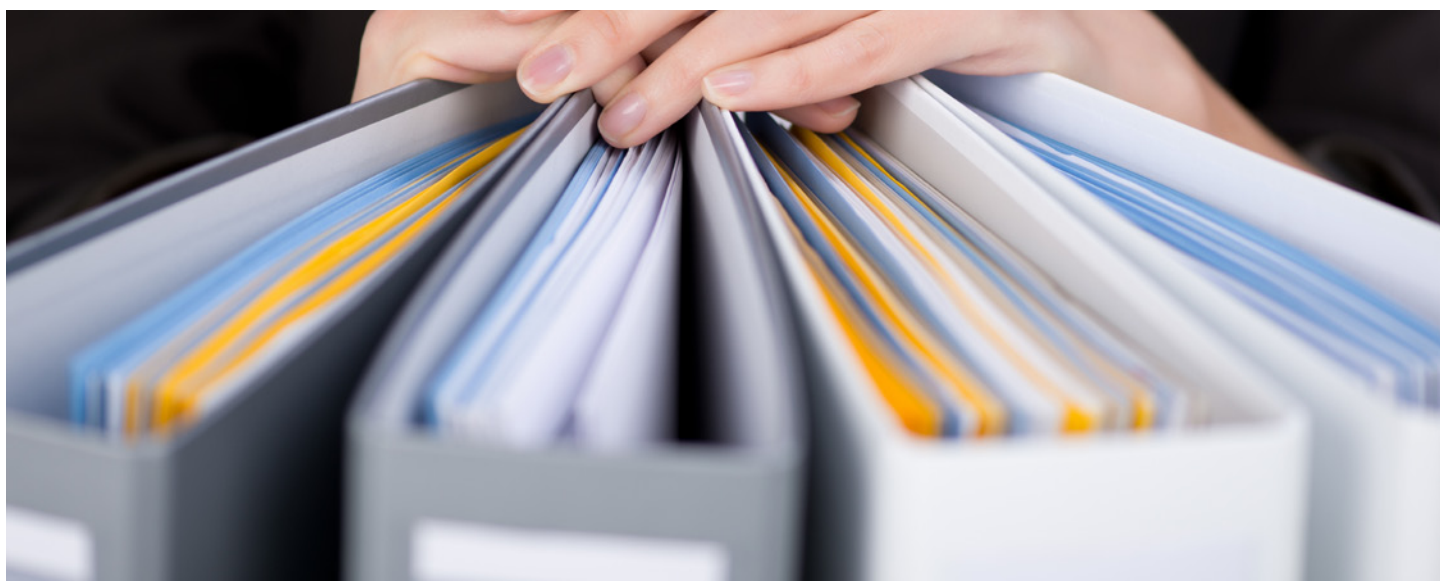
In free trade zones, the establishment of steel manufacturing enterprises by a WFOE is permitted.

Permits for foreign-owned travel agencies to operate outbound tours for Chinese Mainland residents (with the exception of Taiwan).

- Allows foreign investors to be engaged in grain purchase and cotton wholesale.
- Allows foreign investors to be engaged in motorcycle manufacturing in the form of exclusive foreign ownership.
- Allows the establishment of wholly foreign-owned entertainment venues, providing services inside free trade zone.
- Allows foreign investors and investors from Taiwan to establish wholly foreign-owned performance brokerage institutions.
- Allows foreign investors to be engaged in the construction and operation of gasoline stations in the form of exclusive foreign ownership.
- Allows the establishment of wholly foreign-owned enterprises in the areas of international shipping management, international marine cargo handling and international shipping container station and storage yard.
- Allows foreign investors to be engaged in the business of public international shipping agencies in the form of joint venture. A relaxation on the restrictions on domestic enterprises becoming the main owner of a joint venture - the percentage of foreign ownership has amended to 51%.

Outlook for Foreign Investment into the FTZs

Following these reforms, the outlook is positive for encouraging further investment into the FTZs. However, it is vital that the related departments of the State Council and the People's governments of Tianjin, Shanghai, Fujian and Guangdong must react efficiently to ensure the adjustments to regulations align with the related management system. As stated in the documentation, the content of the decision will be adjusted in a timely manner according to the trial situations of the reform and opening up in pilot free trade zones.



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IIT Tax Payment Facilitation

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Tax Due Diligence

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Systems

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