

**China (Shanghai) Pilot Free
Trade Zone
Inaugurated on September 29**



September 2013

Agenda

- Introduction and background
- Pilot reforms: overview
- Selected “new” business models: discussion
- Business setting up in the China (Shanghai) Pilot Free Trade Zone
- Recommended approach and action
- Deloitte support
- Dedicated Page on China (Shanghai) Pilot FTZ

Introduction and background

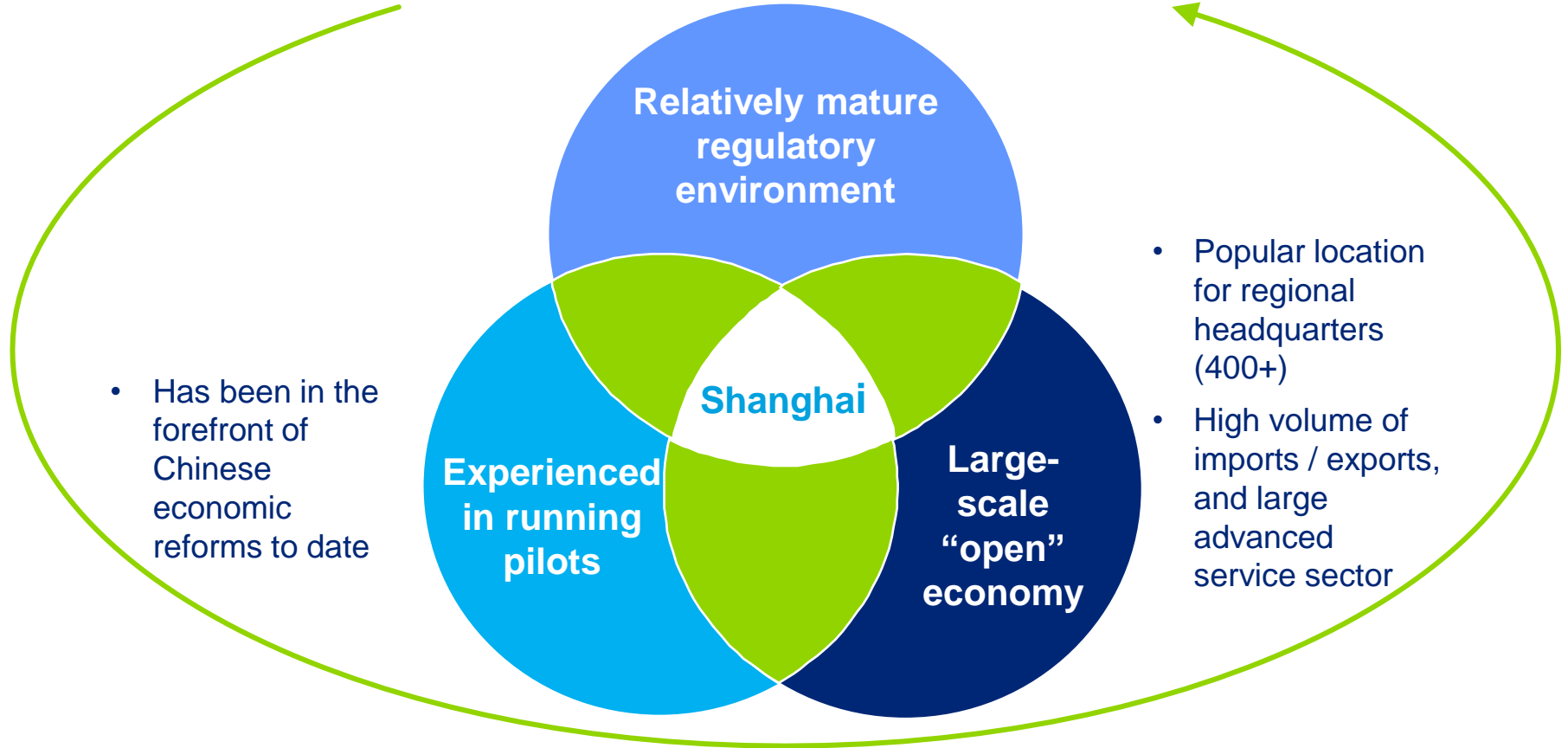
Why China (Shanghai) Pilot Free Trade Zone?

National strategy to reform China's economy

- China under pressure to “further open up” economy
 - Which sectors?
 - How? To what extent?
 - Timing: how fast?
- Reform government administration, and establish trade and investment policies that align with international standards
 - Japan invited to join Trans-Pacific Partnership
 - Many other major trading partners concluding Free Trade Agreements (FTAs) with each other
 - China under pressure to conclude FTAs
 - Negotiation strategy?
 - What concessions? What “asks” in return?
- China (Shanghai) Pilot Free Trade Zone
 - “Pilot” the “opening up” of economy in the pilot FTZ
 - “Pilot”, observe, learn... for application nationwide

Why Shanghai?

- High administrative efficiency, transparency, low administrative charges, and developed legal environment



Solid foundation to conduct pilot measures geared towards opening-up the economy and policy reform

China (Shanghai) Pilot Free Trade Zone

- Combines
 - **Waigaoqiao** Free Trade Zone
 - **Waigaoqiao** Bonded Logistics Zone
 - **Pudong** Airport Free Trade Zone
 - **Yangshan** Bonded Port
- Combined area of over 28.78 square kilometers
- Will the pilot area be expanded?
- Interaction with China outside of the zone



China (Shanghai) Pilot Free Trade Zone: concept

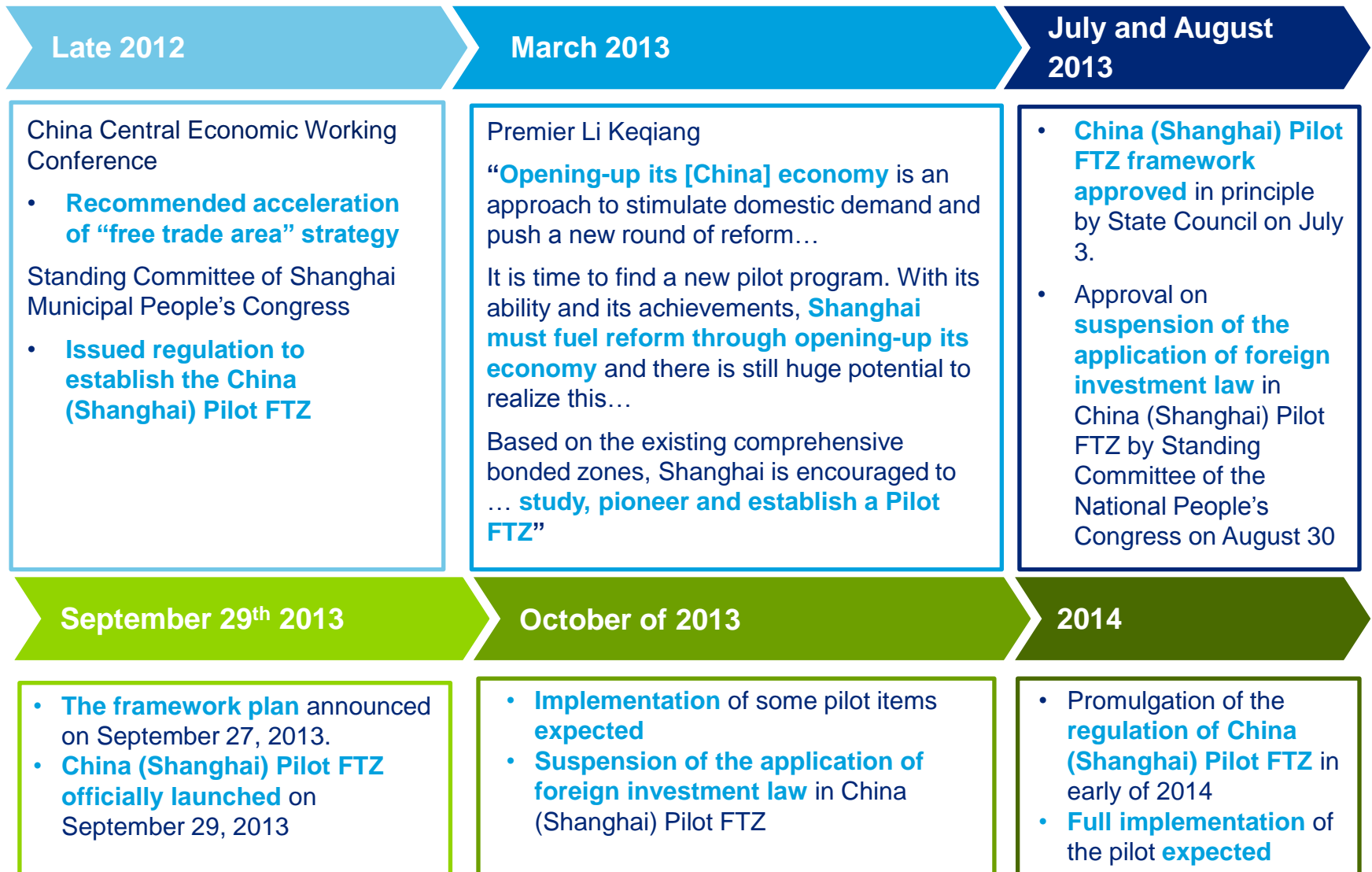
China (Shanghai) Pilot FTZ	\neq	Free Trade Area	An area covered by a bilateral / multilateral free trade agreement (e.g. Sino-Swiss Free Trade Agreement) executed among countries or separate customs territories to eliminate customs and non-customs barriers to realize liberalization on trade and investment in such area
	$>$	Comprehensive bonded zone	A single functioned special economic zone in Mainland China, free from duties, and quotas to certain extent
	\cong	Free Trade Zone	A specific area under special Customs supervision that allows trade liberalization in a country with preferential policies



China (Shanghai) Pilot FTZ is similar to Free Trade Zone, but more focus on policy reform, less focus on preferential treatment

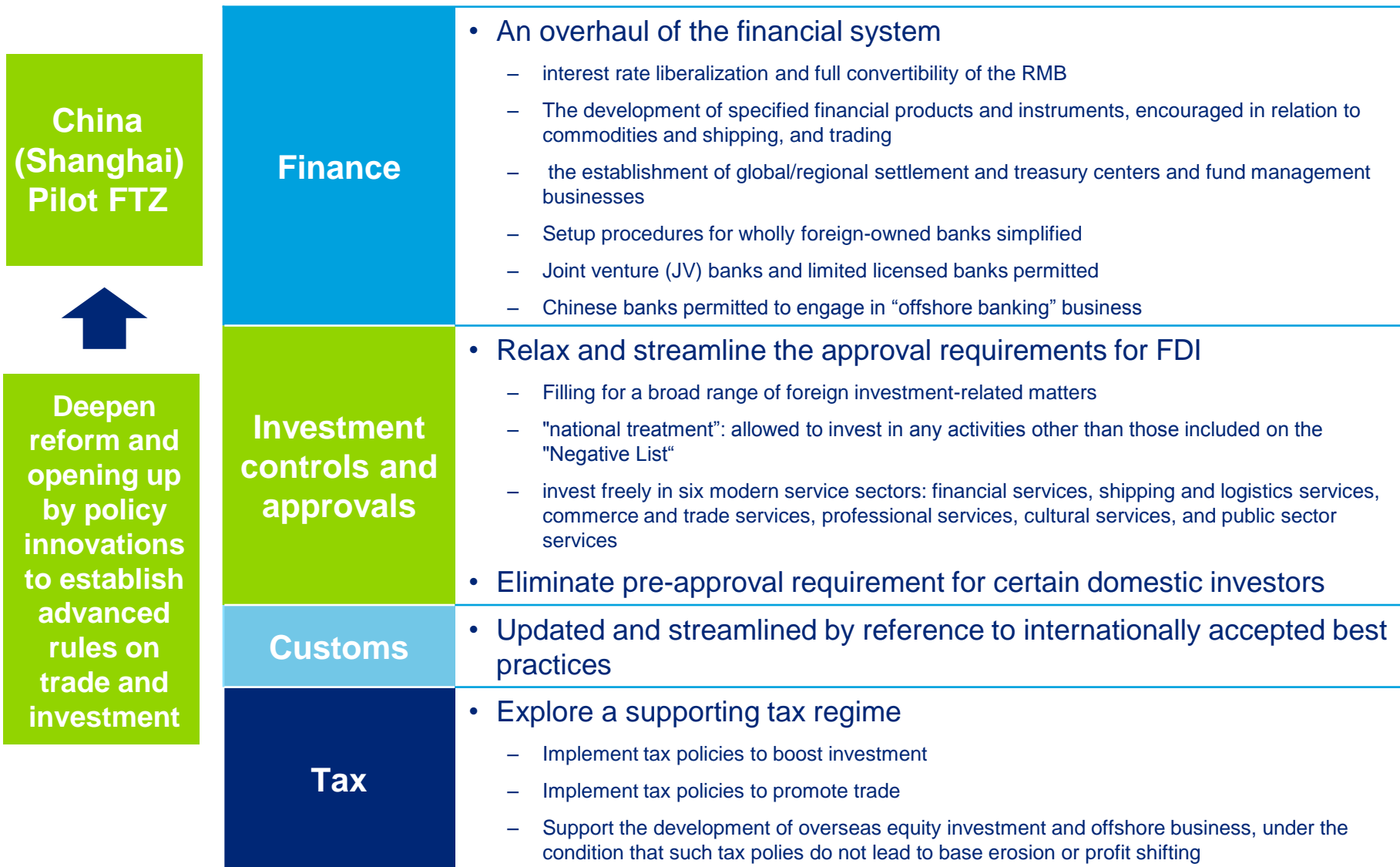
- Focus on physical goods trade and modern service industries, encouraging the operations of regional headquarters
- Focus on onshore and offshore business, expanding offshore function
- Realize trade, investment, and finance liberalization

Timeline (based on information currently available)



Pilot reforms: overview

Pilot reforms



Free flow of the commodities in the pilot FTZ with efficient supervision on flow into domestic market

Pilot sectors

Enterprises	Industries
Transition from traditional production and trade business vehicles to headquarters	Transition from traditional goods trade to goods trade + modern service industries
<ul style="list-style-type: none">• Promotion of regional headquarter and regional operations center activities<ul style="list-style-type: none">– Regional headquarters– Regional sales, operations, and treasury centers– Treasury centers– “Principal” companies– Outbound investment platform	<ul style="list-style-type: none">• Promotion of modern service industries<ul style="list-style-type: none">– Financial services– Transportation services– Commerce and trading services– Professional services– Cultural services– Public sector services

PFTZ Vs. Qianhai

China (SH) PFTZ

28 km²

Waigaoqiao Free Trade Zone, Waigaoqiao Bonded Logistics Zone, Pudong Airport Free Trade Zone, Yangshan Bonded Port

Yangtze River Delta Economic Zone
RMB10,877b

International Finance Center
(sophisticated mechanism)

Nation's leading financial system, first-rate infrastructure, early-development advantage of being first PFTZ in China

Coverage area

Location

GDP Size

Positioning

Core Advantage

Shenzhen Qianhai

15km²

Hong Kong – Shenzhen – Guangzhou

Pearl River Delta Economic Zone
RMB4,785b

Experimental showcase of the opening-up of China's financial sector to the world

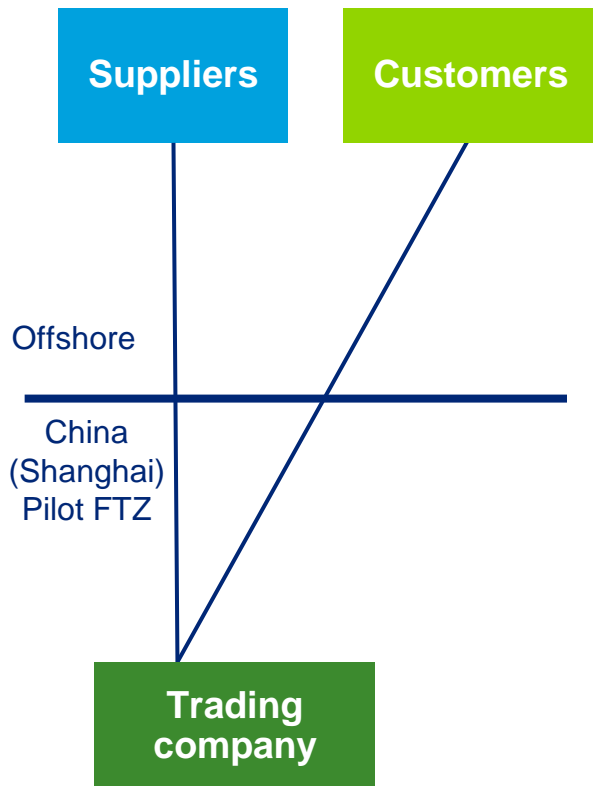
Adjacent to HongKong, favorable for legislative innovation, strong possibility to reform

Current challenges

Policy	<ul style="list-style-type: none">• Further opening-up and status quo: where balance to be struck
Alignment	<ul style="list-style-type: none">• Respective responsible governmental authorities• Relevant laws and regulations
Timing	<ul style="list-style-type: none">• The overall plan finalized but pending for open detailed implementation rules
“New”	<ul style="list-style-type: none">• Lack of precedents, in particular, in relation to new business models
Communication	<ul style="list-style-type: none">• Effective and efficient communication platforms between industry and government required
Stability / predictability	<ul style="list-style-type: none">• Pilot policies: how stable and predictable?

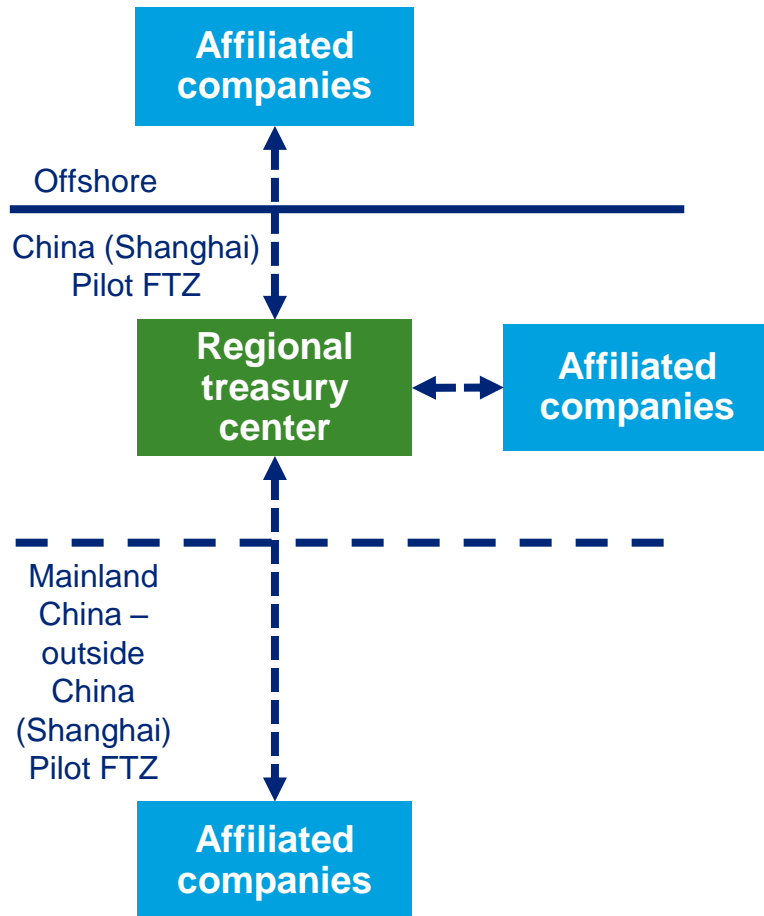
Selected “new” business models: discussion

Entrepot / offshore trading



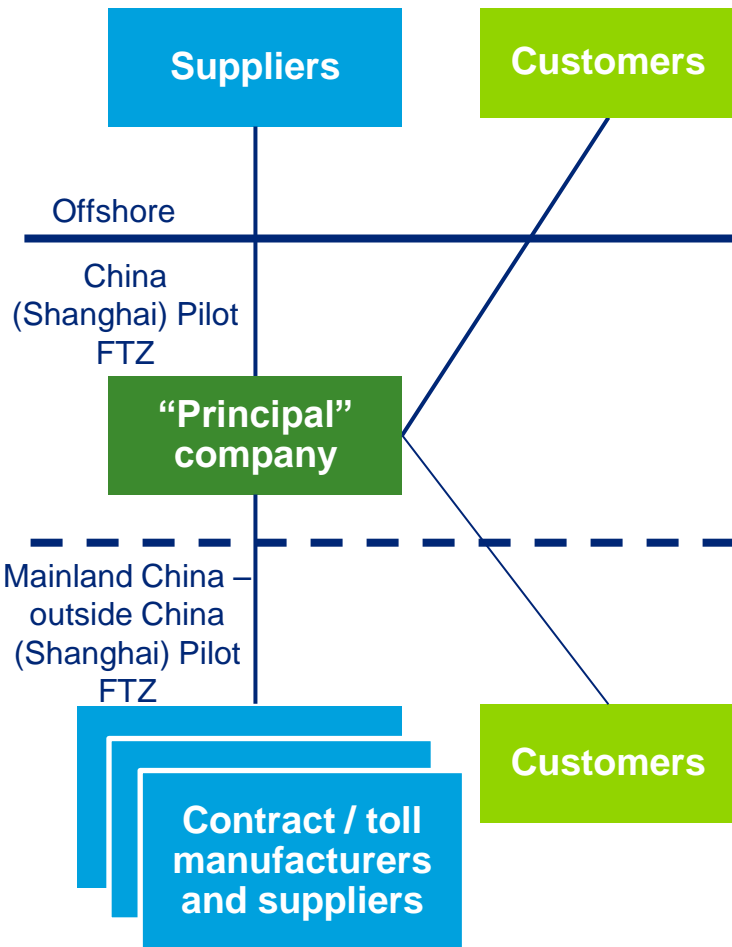
	Expected in the China (Shanghai) Pilot FTZ
Finance	Foreign exchange controls relaxed, and possible significant reforms to facilitate cross-border transactions
Investment controls and approvals	Approval and setup procedures, and administration simplified <ul style="list-style-type: none"> • Based on possibly short “negative list” • “Filing” + “post investigation” instead of pre-approval Use of innovative trading/hedging instruments and strategies potentially encouraged
Customs	Customs procedures simplified and modernized, to encourage entrepot trading
Tax	Explore a supporting tax regime

Regional treasury center



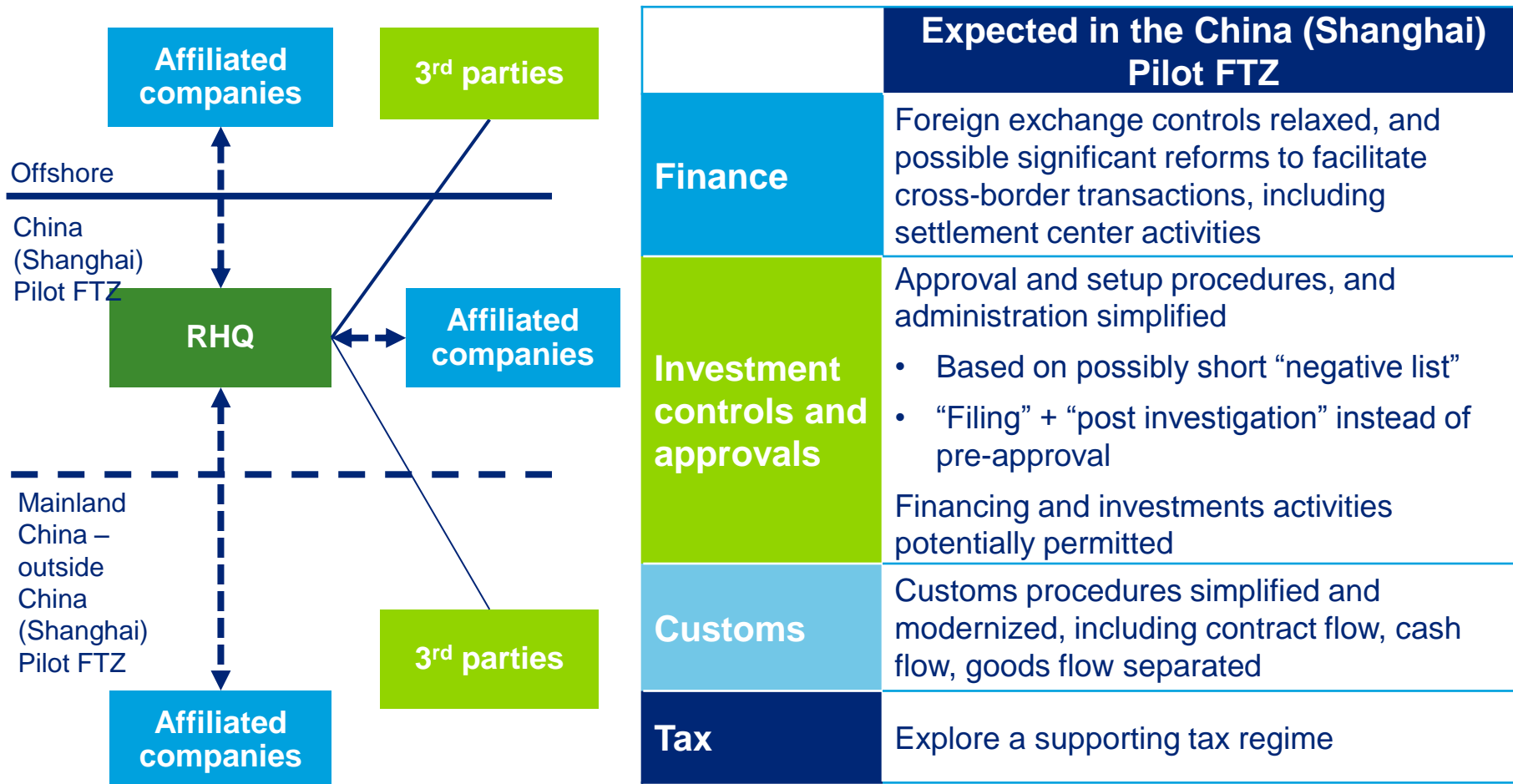
	Expected in the China (Shanghai) Pilot FTZ
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Investment controls and approvals	Approval and setup procedures, and administration simplified <ul style="list-style-type: none"> • Based on possibly short “negative list” • “Filing” + “post investigation” instead of pre-approval
Customs	N/A
Tax	Explore a supporting tax regime

“Principal” company



	Expected in the China (Shanghai) Pilot FTZ
Finance	Foreign exchange controls relaxed, and possible significant reforms to facilitate cross-border transactions, including settlement center activities, and simplification associated with simplified customs supervision
Investment controls and approvals	Approval and setup procedures, and administration simplified <ul style="list-style-type: none"> • Based on possibly short “negative list” • “Filing” + “post investigation” instead of pre-approval
Customs	Customs procedures simplified and modernized, including contract flow, cash flow, goods flow separated
Tax	Explore a supporting tax regime, VAT refund procedures simplified
Commercial considerations	A principal company close to Chinese market

RHQ (including trading, investment, cash management, and shared services activities)



Business setting up in the China (Shanghai) Pilot Free Trade Zone

Already agreed, or in discussion ...

Based on media reports

- **Nintendo and Sony:** permission to assemble/manufacture consoles in the China (Shanghai) Pilot FTZ;
- **London Metals Exchange:** a delivery warehouse in the pilot zone;
- **Bank of Communications:** centre for conducting offshore finance and cross border RMB business;
- **Global auction houses:** permission to conduct cultural relic auctions in the pilot zone;
- **Entertainment industry:** formation of wholly foreign owned entertainment artist agencies and the establishment of entertainment venues in the pilot zone;
- **Value added telecommunication service providers:** formation of wholly foreign owned subsidiaries in the pilot zone to conduct value added telecommunication services.

Initial 36 (September 29, 2013)

36 enterprises were reported in the media that granted the licenses certifying their registration in the China (Shanghai) Pilot FTZ, including 8 local banks, 2 foreign banks and 1 financial leasing company.

	Company Name	Investors		Company Name	Investors
1	Shanghai Baijiahe Information Technology Co., Ltd	BestTV, Microsoft global finance	14	Shanghai Brics international trading Co. Ltd	Global Internet Exchange, the BRICs Venture Fund, Chengdu Sino-us Jipi Fund
2	Charoen Pokphand Import and Export Trading (Shanghai) Co., Ltd	CP Group	15	LMG (Shanghai) Business Development Co., Ltd	LGM world group
3	Shanghai Oriental Pearl Culture Co., Ltd	Shanghai Oriental Pearl Group	16	Almaco Marine Engineering Design (Shanghai) Co., Ltd	Finland Almaco Group
4	Shanghai SNDA International Trading Co., Ltd	SNDA Group	17	BNP Paribas Commercial Trading (Shanghai) Co., Ltd	BNP Paribas
5	Guangshitong Internet Communication Co., Ltd	SMG, State Grid	18	Shanghai Yunli Container Service Co., Ltd	Huideli Investment Management Co., Ltd, Hongshi International trading Co., Ltd
6	Shanghai Kuajingtong International trading Co., Ltd	East Pay	19	Shanghai Pudong Porsche car sales Services Co., Ltd	Porsche
7	Shanghai Eastday E-commerce Co., Ltd	Eastday	20	Hony Capital (Shanghai) Co., Ltd	Hony Capital Co., Ltd
8	Shanghai Fanya Financial Service Co., Ltd	HEAVEN-SENT Capital Management Group, Synergy Capital, Shanshui holding Co.	21	Shenyin & Wanguo Zhifu Investment Co., Ltd	Shenyin & Wanguo Futures Co., Ltd
9	Shanghai Asia-Pacific International Trading Co., Ltd	China Railway Material Group, CITIC Securities, Qianyang Consulting	22	Hua An Weilai Asset Management Co., Ltd	Hua An Fund Management Co., Ltd
10	Shanghai United Assets and Equity Exchange Service Co., Ltd	Shanghai United Assets and Equity Exchange (SUAE)	23	China Pacific Property Insurance Co., Ltd., Pilot Free Trade Zone Branch	China Pacific Insurance (Group) Co., Ltd. ("CPIC")
11	Shanghai China Salt International Logistics Co., Ltd	China National Salt Industry Corporation	24*	Zegna (China) enterprise management Co., Ltd	Italy Zegna Holding
12	Shanghai Automobile International Commercial Trading Co., Ltd	Shanghai Automobile Import & Export Co., Ltd	25*	Dazhong Insurance, Pilot Free Trade Zone Branch	Dazhong Insurance
13	C. Steinweg (China) Investment Co., Ltd	Holland C. Steinweg Group			

Initial 36 (Cont'd)

Num.	Company Name	Investors
26	Bank of China, Pilot Free Trade Zone branch	Bank of China
27*	Industrial and Commercial Bank of China, Pilot Free Trade Zone branch	Industrial and Commercial Bank of China
28*	Agriculture Bank of China, Pilot Free Trade Zone branch	Agriculture Bank of China
29*	Construction Bank of China, Pilot Free Trade Zone branch	Construction Bank of China
30*	Bank of communications, Pilot Free Trade Zone branch	Bank of communications
31*	China Merchant Bank , Pilot Free Trade Zone branch	China Merchant Bank
32*	Shanghai Pudong Development Bank, Pilot Free Trade Zone branch	Shanghai Pudong Development Bank
33*	Bank of Shanghai, Pilot Free Trade Zone branch	Bank of Shanghai
34*	Citi Bank, Pilot Free Trade Zone branch	Citi Bank
35*	Development Bank of Singapore, Pilot Free Trade Zone branch	Development Bank of Singapore
36*	Bank of Communications Financial Leasing Co., Ltd., Pilot Free Trade Zone branch	Bank of Communications Financial Leasing Co., Ltd.

* Not formally confirmed

Recommended approach and action

Proactive approach recommended

Don't wait for the rules, approach the China (Shanghai) Pilot Free Trade Zone Authority and “ask”:

- Investors who wish to explore business models that currently do not fit within existing rules, are recommended to approach the government to “ask”. This is because the government is taking a new approach to discussing matters with investors
- **Previously:** the government set the rules, investors asked “**What are the rules?**”, then investors tried to fit their business models within those rules
- **Now:** it is more business friendly and market driven. The government is inviting investors to approach the government to discuss: “**what business model**”, “**why (for the investor and China)**”, and **the government has been holding open and constructive discussions with investors.**

Stay “One Step Ahead”

Understand	<ul style="list-style-type: none">• Objectives of governing framework and rules• Information concerning detailed scope and rules
Prepare	<ul style="list-style-type: none">• Review business plans, business models
Consider	<ul style="list-style-type: none">• Alternative business models and transaction structures that are now possible using China (Shanghai) Pilot FTZ
Focus on	<ul style="list-style-type: none">• How China (Shanghai) Pilot FTZ might benefit you
Proactively participate	<ul style="list-style-type: none">• Approach ...• Ask questions of ...• Actively communicate with ...

China
(Shanghai) Pilot
Free Trade
Zone Authority

Deloitte support

Deloitte support

Strategic positioning and analysis, business model discussion and feasibility analysis

- China strategic positioning/reposition (for foreign enterprises) or global strategic position/reposition
- Business model discussion and feasibility analysis
 - Compile relevant information, and obtain clarity concerning business objectives and priorities
 - Identify options and shortlist
 - Conduct feasibility study and prepare for approach to Approach the China (Shanghai) Pilot FTZ

Approach the China (Shanghai) Pilot FTZ

Initial approach, identify and decide on business model

- Initial approach: no-name basis
- Make decisions concerning business model, tailor presentation and supporting material based on initial approach
- Decide on negotiation strategy, including “fallback plan(s)”

Negotiate based on desired model, and conclude

- Participate and provide advice and support in relation to negotiations, in particular, concerning tax and other desired preferences
- Document discussions and agreement, and where appropriate, provide support in relation to the required legal agreements

Deloitte support (Cont'd)

Implementation assistance

Post setup

- Advice and support in relation to the full range of tax, and (if appropriate) business advisory and legal matters, including tax and (if appropriate) legal retainer services

China (Shanghai) Pilot FTZ - Dedicated webpages

www.deloitte.com/cn/pftz_en

Page content:

Placemat

- [September 2013 version](#)
- [August 2013 version](#)

Business Regulation and Tax Newsflash

- [Issue 5 - 30 September 2013](#)
- [Issue 4 - 29 September 2013](#)
- [Issue 3 - 28 August 2013](#)
- [Issue 2 - 2 August 2013](#)
- [Issue 1 - 11 July 2013](#)

Regulation

- [Guo Fa \[2013\] No. 38: Circular of the State Council on the Framework Plan for the China \(Shanghai\) Pilot Free Trade Zone](#) (unofficial translation)

Dbriefs webcasts

- 24 October 2013 - China (Shanghai) Pilot Free Trade Zone: A New Model for Doing Business in China? ([Register](#))
- 13 August 2013 - China (Shanghai) Pilot Free Trade Zone: Dawn of a New Era ([View webcast](#) | [Download slide deck](#))

Speaker's Introduction



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Danny Po is the Asia-Pacific and China National M&A Tax Leader and based in Hong Kong office.

Danny was the founder and has been leading the China M&A tax practice in another Big 4 firm since 2005. Danny has more than 25 years of experience in China tax and business advisory services. He has been working closely with his teams in Hong Kong and the Mainland of China to provide a wide range of transaction related tax services for both in-bound and out-bound investment. Danny is an active speaker and author on M&A tax related topics for trade associations and professional bodies as well as media in the Mainland of China and Hong Kong.

Danny is a fellow member of the HKICPA, ACCA and HKTI. He is also an associate member of the ICAEW and the HKICS.

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