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CEPA General Introduction:

CEPA stands for “Closer Economic Partnership Arrangement between Hong Kong and the Chinese mainland”. It’s a free trade agreement under WTO rules. It provides preferential access to mainland market for Hong Kong companies and exceeds China’s WTO entry commitments. CEPA is effective from January 1, 2004.

For manufacturing sector, under CEPA, 90% of Hong Kong domestic exports to the mainland pay zero tariff and initially 273 types of Hong Kong-made products are covered in this zero tariff scheme. Through CEPA, Hong Kong manufacturers enjoy greater flexibility when entering mainland market and more Hong Kong players are allowed to engage in distribution business in mainland. This can increase the competitiveness of products emphasizing ‘Made in Hong Kong’ in the Mainland market. For example, Kee Wah Bakery enters mainland market emphasizing that they sell Hong Kong souvenirs. For service sector, CEPA makes market access easier and faster for 18 services sectors and it lowers entry thresholds for smaller players. It provides more opportunities for Hong Kong services professionals to practice in the mainland and allow Hong Kong permanent residents to set up individually owned retail stores in Guangdong. Hence it provides an easier and faster entry into the big mainland market for Hong Kong residents and enterprises.

There are further liberalization measures and arrangement following the implementation of CEPA in the subsequent years.

General Timeline of CEPA:

The Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA) was first concluded in June 2003 and implemented from 1 January 2004.

CEPA Main Text and Six Annexes (signed on 29 June 2003 and 29 September 2003 respectively)

CEPA officially and legally became effective from January 1, 2004.

On 27 August 2004, the Hong Kong Special Administrative Region (HKSAR) Government and the Central People's Government signed an agreement on further liberalization under CEPA. The two sides then made an agreement under CEPA II, to further relax the market access conditions for Hong Kong services and service suppliers in the following areas, namely: legal, accounting, medical, audiovisual, construction, distribution, banking, securities, transport, freight forwarding agency and individually owned stores.

Under the new agreement, widely known as CEPA II, the scope of liberalisation will expand in great breadth and depth, thresholds will be eased further and more incentives will be offered, bringing more wide-ranging benefits to Hong Kong companies which wish to enter the mainland market. This, coupled with the Pan-PRD regional cooperation plan implemented in mid-2004, is set to bring the economies of Hong Kong and PRD even closer together, creating more opportunities for companies from the two places.

Supplement to CEPA (signed on 27 October 2004) (CEPA II)

Starting from 1 January 2005, when the second phase of CEPA became effective, 1,087 types of products made in Hong Kong can be exported to the Chinese mainland free of tariff.

Under CEPA II, it is agreed that eight more areas will be opened for preferential access to Hong Kong service suppliers from 1 January 2005. They include: airport services, cultural entertainment, information technology, job referral agency, job intermediary, patent agency, trade mark agency and professional qualification examinations. In other words, the Chinese mainland is committed to opening a total of 26 sectors to Hong Kong services and Hong Kong services providers with CEPA I and II combined.

Supplement II to CEPA (signed on 18 October 2005) (CEPA III)

Under CEPA III, which will take effect from January 2006, it is stipulated that all products originated from Hong Kong, except for prohibited articles, will become tariff free. But eligible products must fulfill the CEPA rules of origin to enjoy tariff-free treatment. From now on, the rules of origin for 261 products have been worked out, and a large majority of the agreed rules of origin resemble the liberal rules adopted in CEPA I and II. For products which have no agreed CEPA rules of origin at present, Hong Kong will initiate discussions about this issue with the mainland twice a year upon requests by local manufacturers.

Supplement III to CEPA (signed on 27 June 2006)

Confirmation Note on the Rules of Origin for Goods subject to Zero Tariff for the First Half of 2006 under CEPA and the Annex (signed on 27 June 2006)

Supplement IV to CEPA (signed on 29 June 2007)

Last revision date: 29 June 2007

Source of information:

http://www.tid.gov.hk/english/cepa/legaltext/cepa_legaltext.html

Note: The CEPA was signed in the Chinese language, and only the Chinese text is authentic.

General Background of CEPA

After experiencing the Asia Financial Crisis, HK's economy faced a short term recovery in 2000. However, the economy soon got trapped in the economic trough again. Then an opportunity arrived in 2001 which was followed by China's entry into the WTO. Businessmen expected greater opportunities and bigger fortune with China's opening of the market. At the same time, some people worried that Hong Kong was losing the strategic advantage as a springboard into China's market after China has fully opened its market to foreign investors and firms under WTO's regulations and requirement.

Thus, some people suggested ideas and arrangements similar to CEPA. This was the very beginning stage of CEPA. In November 2001, Chief Executive , Mr Tung Chee Hwa proposed the idea of preferential free trade to leaders of the Central Government in Beijing. Such idea was well accepted by the leaders including President Jiang Ze Min and Premier Zhu Rong Ji.

In the early 2002, under the instructions given by the Central Government, HK started negotiations and consultations with the relevant departments in Beijing and the negotiation lasted for around 1.5 years. For Hong Kong is a part of China and under the 'one country two systems' policy, the preferential free trade arrangement and early access to China's market proposal was named as "Closer Economic Partnership Arrangement between Hong Kong and the Chinese mainland".

The whole negotiation process was long and filled with suspicion as some people worried that agreement could not be reached. There were at least three High Level Consultations on CEPA and lots of meetings between officials from both sides. Finally, on 13th November 2002, the minister of the Ministry of Foreign Trade and Economic Cooperation, PRC , Mr Shi Guang Sheng (外經貿部部長石廣生) announced publicly that the negotiation process was smooth and good already. He estimated that the negotiation will end in 2003 and the result would be announced at that time. This was the first time for the Central Government to announce the schedule of CEPA officially and publicly.

In December 2002, Chief Executive , Mr Tung Chee Hwa announced that there would be detailed arrangement and plans confirmed regarding CEPA in around

June 2003 after he had met President Jiang Ze Min and Premier Zhu Rong Ji in Beijing. The schedule was further confirmed.

In the year of 2003, there was SARS in both Hong Kong and mainland China. Some people worried that whether the progress of negotiation and implementation of CEPA would be slowed down. The originally planned date of signing ceremony may be delayed. However, the Central Government showed its support for Hong Kong and it determined to speed up the progress after taking consideration of the effect of SARS to HK.

On 16th June 2003, Chief Executive, Mr Tung Chee Hwa formally and publicly announced that the signing ceremony of CEPA would be held on 30th June 2003 according to the agreement reached.

On 29th June 2003, Premier Wen Jiabao and the Chief Executive, Mr Tung Chee Hwa, presided over the signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). The CEPA agreement was signed by the Vice Minister of the Ministry of Commerce, Mr An Min, representing the Central People's Government; and the Financial Secretary, Mr Antony Leung, representing the Hong Kong Special Administrative Region Government, at a ceremony held at Government House.

The signing of the Arrangement marked the conclusion of the main parts of the consultations which were launched in January 2002 in Beijing.

The CEPA covers three broad areas, namely trade in goods, trade in services and trade and investment facilitation.

For the trade in goods, the Mainland has agreed to implement zero import tariff from January 1, 2004 for exports from Hong Kong when the exports meet the CEPA rules of origin requirement in some 270 Mainland product codes.

The Mainland has also agreed to apply zero import tariff latest by January 1, 2006 upon applications by local manufacturers for other codes maintained on China's tariff system and the goods should meet the CEPA rules of origin.

For the trade in services, a number of sectors will benefit in terms of additional market entry or removal of specific restrictions in the Mainland market. They include management consultant services, exhibitions and conventions, advertising, legal services, accounting services, medical and dental services, real estate and construction services, transport services, distribution, logistics, forwarding services, storage services, tourism, audiovisual, banking, securities

and insurance.

For the part of Hong Kong, it will undertake to continue to apply zero tariff for Mainland products and not to introduce new or additional discriminatory measures against services and service suppliers of the Mainland.

With regard to trade and investment facilitation, both sides agreed on promoting co-operation in seven areas, namely, customs clearance; quarantine and inspection of commodities, quality assurance and food safety; small and medium-sized enterprises; Chinese medicine and medical products; electronic commerce; trade and investment promotion; and transparency in law and regulations.

The Mainland and Hong Kong submitted a joint notification of the CEPA to the World Trade Organization (WTO) on 27 December 2003. The English translation of the CEPA text submitted was posted onto the webpage of the Trade and Industry Department. The CEPA was signed in the Chinese language, and only the Chinese text is authentic.

There were editorials commenting the signing of the Arrangement and effect of CEPA benefits both mainland business and Hong Kong professionals which was a typical 'win-win' arrangement. (Quoted from Ming Pao, June 30, 2003). Besides, there were also editorials commenting that the signing of CEPA showed that the Central Government was confident with Hong Kong's future. While Hong Kong was experiencing difficulties, the Central Government would provide its support fully to Hong Kong. (Quoted from Shun Pao, July 1, 2003). In another perspective, there were also editorials saying that the signing of CEPA was in fact not a 'gift' from the Central Government but it was a kind of mutual beneficial arrangement. If the Central Government really wants to give HK a gift, it is better for the Premier to order the Chief Executive to stop or postpone the legislation of Article 23. (Quoted from Apple Daily, June 30, 2003).

Political Environment

Many people in Hong Kong always think that, the implementation of CEPA is closely related to political matters. Are there any political implications for the implementation of CEPA? Some discussion in the news articles was related to this question.

“The Central Government believed that supporting Hong Kong economically could bring along the political and social trend towards the proposed development of Beijing, thus Individual Visit Scheme and CEPA was carried out.”

--- (Hong Kong Daily News, 2006-12-29, A11)

“In a forum concerning the effect of CEPA on “One Country, Two Systems” and the economic improvement of the both sides of coast, professionals from mainland and SARs agreed that implementing CEPA brought along advantages to the economic improvement of mainland and SARs, and it was also an important measure made by the Central Government to advance the political stability and economic affluence of Hong Kong and Macau.”

--- (Macao Daily, 2004-03-29, A10)

Opinion from an accountant

Question: “Do you think there are any political implications regarding the implementation of CEPA?”

Answer: “Everything may have its political implications. I think the main purpose of launching CEPA is to bypass the requirements under the WTO Agreement of China to open up its market to all WTO members and to treat all members equally. Remember Hong Kong is also a member of the WTO and a SAR of China.”

--- Mr. WaiYing Fung (HWL - HWL Group Chief Accountant, Accounts)

In short, from the point of view of the media and some professionals, there would be a political implication under the implementation of CEPA. CEPA acts as a measure by Central Government to promote political stability, to cohere Hong Kong with mainland China and to offer benefits to Hong Kong people before any other WTO members.

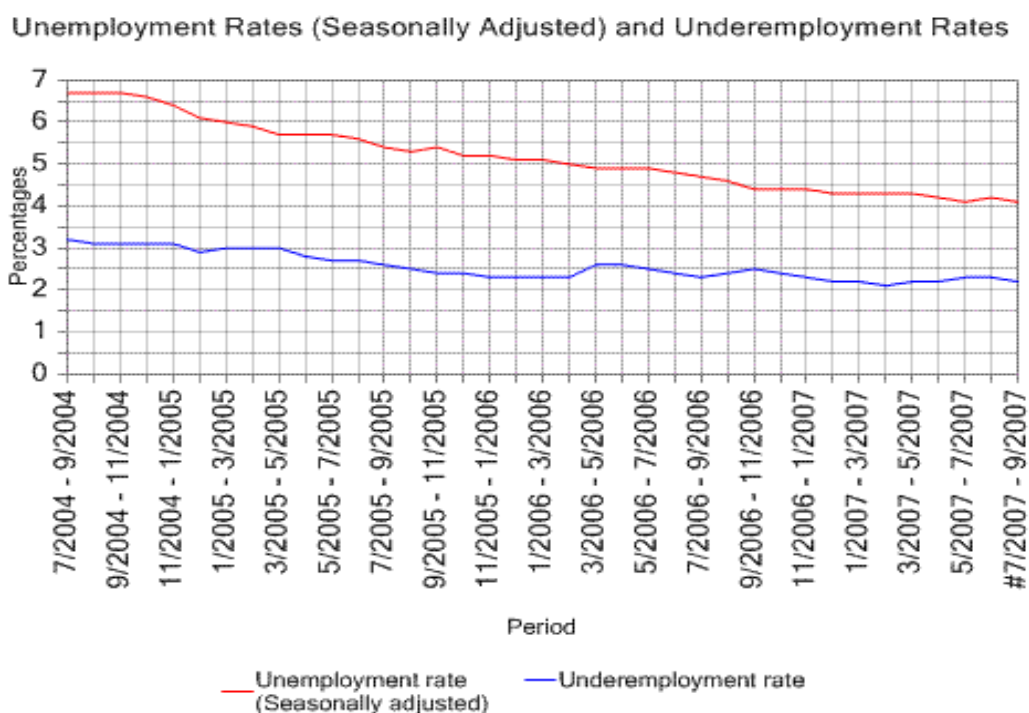
General Comparison between now and before (HK)

In general, CEPA has made a notable change to the business environment of Hong Kong. It really helped Hong Kong recover from economic downturn. First of all, Hang Seng Index might be used as an evidence to show how CEPA stimulated the economic environment of Hong Kong.

Hang Seng Index			
Year	Closing Price, one day before announcement of CEPA	Closing Price, one month after announcement of CEPA	Range of price fluctuation
2003	9577.12	10134.83	5.8%
2004	12838.71	14066.91	9.4%
2005	14597.40	14883.32	2.4%
2006	16774.70	16916.77	7.0%

Source: Bloomberg, 2003 - 2006

Moreover, due to the implementation of CEPA, the economic environment of Hong Kong has improved, leading to an increase in demand for employees and hence a drop in unemployment rate.



From the above chart, it could be seen that the unemployment rate and the under-employment rate were both decreasing in the period after the implementation of CEPA. This reflects the positive effect of CEPA on employment.

More concrete evidence would be the Gross Domestic Product of Hong Kong. Comparing the GDP before the implementation of CEPA and that after in the chart below, it was noted that the GDP was gradually, though with slight fluctuation, increasing with a moderate rate after March, 2003 (about 6.86% increase per quarter averagely), compared with that before March, 2003 which was more or less steady (about 1.27% increase quarter averagely). That means CEPA, again, has a positive effect on the economic environment of business in Hong Kong.



Figures are subject to revision later on as more data become available.
 Figures are the latest data released on 18 October 2007.

In conclusion, by comparing the change in HSI, unemployment rate and GDP before and after the implementation of CEPA, it is believed that CEPA really has a positive effect on Hong Kong's economic environment of business.

Effect on Legal Environment

I. CEPA Legal Text

There is much legal text under CEPA as regulations or guidelines for many industries. The legal environment of business has changed a lot in many aspects. Before the implementation of CEPA, there were regulations limiting the export of Hong Kong products to mainland China. CEPA stated that the limiting measures for service providers would be gradually relieved or cancelled. Moreover, Hong Kong's manufacturers could develop their business prior to any other WTO partners of China. Hence, under CEPA, many legal regulations would be affected, making the business legal environment changed.

II. Improvement in Protection of Intellectual Property Right

One special issue might be noted, under Supplement III to CEPA, protection of intellectual properties was high-lighted and reinforced. As intellectual properties were in fact so important to business, CEPA (especially Supplement III to CEPA) really helps introduce the protection of improve intellectual property to mainland and improve the legal environment of business.

Comparison of effects on service industry after implementation of CEPA

I. Background information

From 1 January 2006, CEPA provides new preferential treatments for Hong Kong service suppliers in 27 services areas (from 18 service areas in the first phase).

In China, service industry accounts only for about 33% of GDP of China. In Hong Kong, however, it accounts for over 90% of Hong Kong's GDP. It is obvious that the development of service industry of Hong Kong is a lot more mature than that of China. It in turn creates advantages for Hong Kong service industry to develop their businesses in China.

For trade in services, 74% of the responding companies considered CEPA beneficial to the Hong Kong economy, and 47% considered CEPA beneficial to their own industries. Respondents from the banking services, accounting, auditing and bookkeeping services, and legal services accorded the highest recognition to CEPA for benefiting their industries and their establishments.

II. General Benefits of CEPA on Service Industry

The implementation of CEPA provides with the following benefits for Hong Kong service industry to enter the mainland market in a higher priority:

1. Lower capital requirement

CEPA allows Hong Kong service industry to enter China with a lower capital requirement. For instance, the minimum capital requirement for foreign banks to invest in China is US\$10 billion. For Hong Kong banks, however, it only requires US\$6 billion. This practice successfully allowed 8 small-sized banks in Hong Kong to enter China market.

2. Allowing entry of the mainland market earlier than enterprises in other countries

CEPA was actually a preference given to Hong Kong when China joined the WTO. It allowed Hong Kong enterprises to enter the

not-completely-opened China market with preferential terms. As a result, there are time advantages for Hong Kong service industry as it can enter the fruitful market much earlier than foreign-funded enterprises.

3. More choices on the method of entering the mainland market.
CEPA allows two methods of entering. One way is to enter in the form of a legal entity, and another is to enter the market individually.
4. Fewer geographical restrictions
There are fewer geographical restrictions under CEPA. For example, to encourage Hong Kong enterprises to develop their businesses in the western part of China, there are benefits provided such as taxation benefits, even lower capital requirement, etc. There are more places for Hong Kong enterprises to choose from.
5. Allowing Hong Kong entrepreneur to operate in China in the form of sole proprietorship
Under CEPA, Hong Kong businessmen can develop their business in the form of sole proprietorship in China. However, this practice is forbidden for all foreign enterprises.

These benefits are much more than the commitments of China in entering WTO. They allow Hong Kong service industry to enter the fruitful China market at a higher priority and with more benefits than other foreign businesses.

III. Effect of CEPA on the Speed of Service Industry to Develop in China - Hong Kong Service Supplier (HKSS)

Generally speaking, "juridical persons" (including companies, partnerships and sole proprietorships engaged in substantive business operations in Hong Kong for three to five years) as well as "natural persons" (Hong Kong permanent residents) of Hong Kong will be able to enjoy preferential treatment granted by the Mainland under CEPA, provided that they fulfill the definition and related requirements of Hong Kong service suppliers.

For juridical persons, they have to be situated in Hong Kong for 3-5 years, depending on their field, and their employees should be largely composed of

Hong Kong citizens. If they fulfill these criteria, they are classified as Hong Kong Service Suppliers.

However, only juridical persons are needed to apply for the certificate of Hong Kong Supplier so as to enjoy the preferential treatment granted under CEPA.

	Till 12/2006	Till 4/2007
Successful application	1,021	1,063
Certificate issued	1,697	1,753

Table 1: No. of certificates of HKSS applied and issued

Figure 8: Number of HKSS applications approved and certificates issued

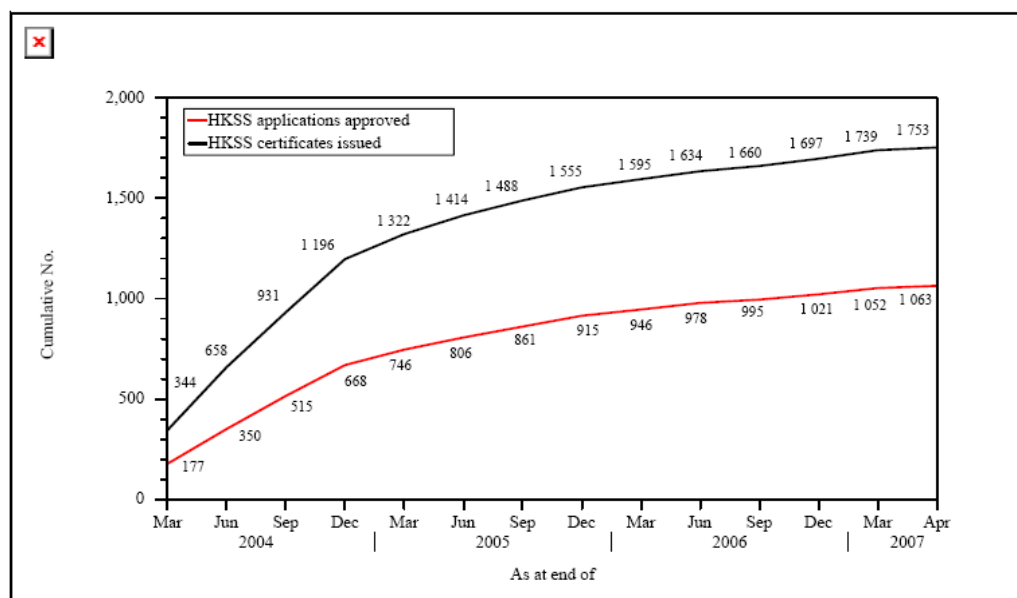


Fig. 1: No. of HKSS applications and certificates issued

Figure 9: Number of certificates of HKSS issued by major services sector as at end-April 2007

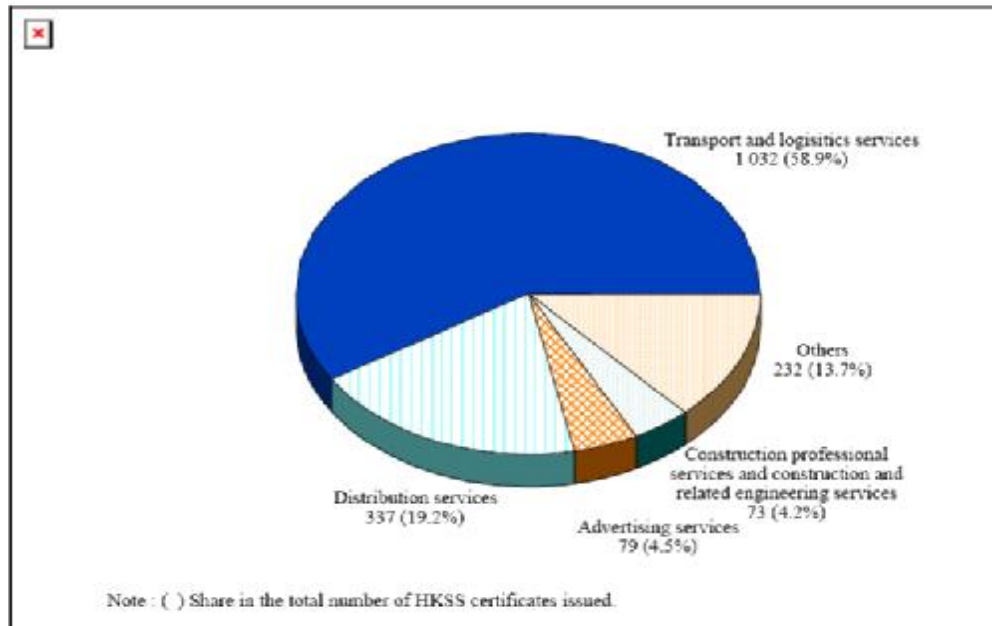


Fig. 2: No. of certificates of HKSS issued by major services sector

Since the implementation of CEPA, over 1,750 certificates have been issued (Table 1 and figure 1). These numbers represent that CEPA attracted an addition of over 1,500 firms to enter the mainland market, which in turn expedited the development of Hong Kong service industry in China.

From figure 2, about 60% of certificate of HKSS are issued to transport and logistic services. The next highest is the distribution services. They accounts for about 20% of the total number of certificates issued.

From these figures above, it is concluded that CEPA does create a convenient channel for Hong Kong service industry to enter the mainland market. Therefore, CEPA speed up the investment plan of service industry in China.

IV. Capital investment of Hong Kong service industry under CEPA

Additional Capital Investment in Hong Kong Service Industry

2004:	\$1,012 million
2005:	\$2,094 million
2006:	\$1,733 million
Estimated 2007 and after:	\$2,406 million

Table 2: Additional capital investment in Hong Kong service industry

Additional Capital Investment of Service Industry in China

2004:	\$2,867million
2005:	\$4,218 million
2006:	\$2,106 million
Estimated 2007 and after:	\$4,641 million

Table 3: Additional capital investment in China service industry

Due to the benefits offered to Hong Kong under CEPA, CEPA not only successfully attracted Hong Kong entrepreneurs to set up their businesses in China, but also encouraged foreign companies to invest in Hong Kong. From table 2, the cumulative additional investment from 2004 to 2006 was about \$5 billion. The estimated additional capital investment after 2007 was over \$2 billion. It is obvious that the implementation of CEPA stimulated capital investment in service industry in Hong Kong.

In 2006, there were a total of 3,845 foreign companies setting up regional headquarters in Hong Kong. There was a 20% increase when compared with the figure in 2003. Among the foreign companies which set up their branches in Hong Kong, 25% of them expressed that the preferences offered under CEPA affected their decisions on where to set up the regional headquarters.

CEPA does not only benefit Hong Kong, but it also accelerates the development of service industry in China. From table 3, the additional investment in service industry in China amounted to about \$10 billion. It was an impressive figure that helped stimulate the development of service industry in China.

V. Effects of CEPA on employment vacancies in Hong Kong

No. of employment vacancies for HK residents created under CEPA

Year	Trading goods	of Trading Service	of Individual Visit Scheme
2004	1 000	415	19 158
2005	736	2 880	-1 343
2006	1 583	1 582	7 927
Total	3 319	5 877	25 742
Grand Total			34 938

Table 4: No. of employment vacancies created under CEPA

Unemployment and Under-employment Rate from 2003 to 2007

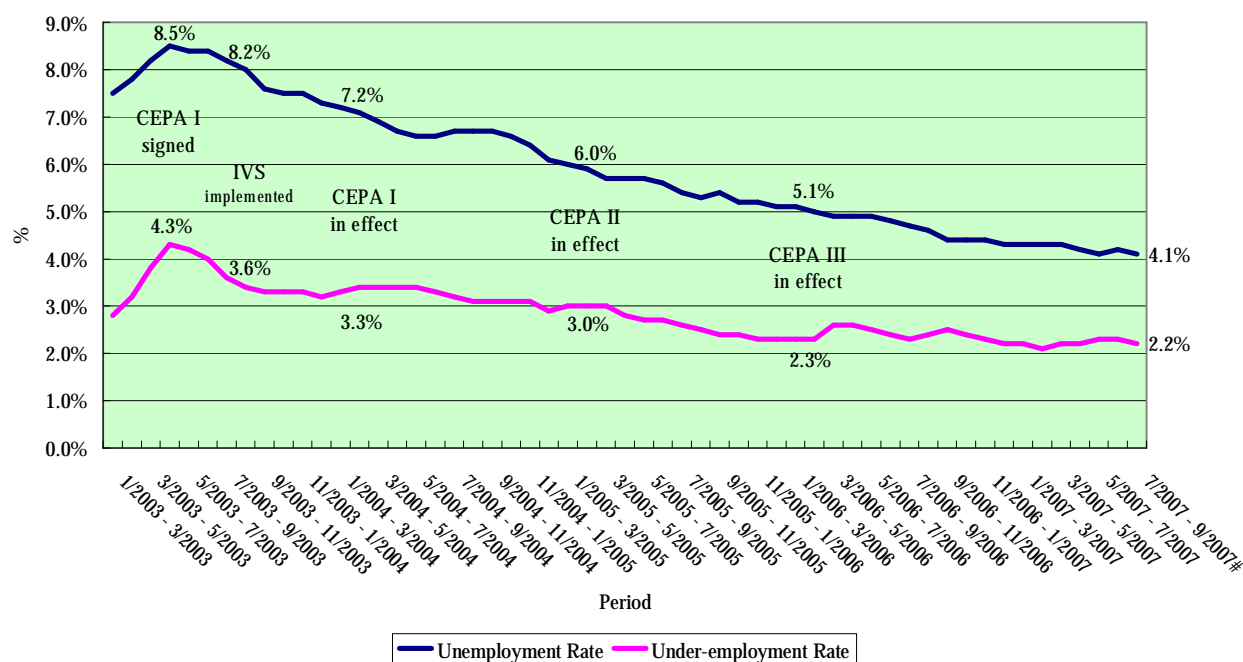


Fig. 3: Unemployment and under-employment rate of Hong Kong from 2003 to 2007

From table 4 and the figure 3 above, it is concluded that CEPA helped bring Hong Kong out of the toughest period since the outbreak of SARS. When CEPA was signed, the unemployment rate and the under-employment rate then were at the highest point of 8.5% and 4.3% respectively. After the implementation of CEPA which created about 20,000 employment vacancies in service industry and through Individual Visit Scheme in 2004, the unemployment rate and the under-employment rate started to fall. We could easily see a decreasing trend in the unemployment rate and under-employment

rate when every supplement of CEPA was signed. CEPA has created a total of 31,619 employment opportunities in service industry. This numeric term was very meaningful to service industry in Hong Kong as it really helped them get out of the trough after the outbreak of SARS and accelerated the recovery of Hong Kong.

VI. Effects on Accounting Profession

1. General Information

In China, there are about 60,000 certified public accountants that meet international standards. However, China demands more than 350,000 professional accountants. This high demand in turn creates a lot of opportunities for Hong Kong accountants.

CEPA opens the door for Hong Kong service industry to enter the profitable mainland market. The accounting profession also benefits from it. Except the preference of allowing accounting profession to set up offices in China, the most profound measure is the mutual exemption of examination papers in professional examinations.

Mutual Exemption of Examination Papers

To facilitate exchange of talents, the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Mainland's Ministry of Finance as well as the Chinese Institute of Certified Public Accountants (CICPA) have reached consensus regarding the mutual exemption of papers under the professional examinations in the Mainland and Hong Kong. The relevant subjects are "Financial Management" and "Auditing". The mutual exemption of equivalent examination papers will facilitate accountants in the Mainland and Hong Kong to acquire the professional qualifications in both places as soon as possible, with a view to enhancing the cooperation of the accounting sectors in the Mainland and Hong Kong.

2. Application of Certificate of HKSS

Service Sector	No. of Applications Received	No. of Applications Approved
Accounting, auditing and bookkeeping services	1	1

Table 5: No. of certificate of HKSS applied and issued in accounting profession

When every one thinks that CEPA benefits accounting profession as though how it benefits the whole service industry, there was only one accounting firm has applied for the certificate of HKSS. It is a surprising number and thus we have interviewed our mentors and asked for their opinions on CEPA.

3. Opinions of Accountants on CEPA

I Fung Wai Ying (HWL - HWL Group Chief Accountant, Accounts)

“There is little benefit brought to the HK accounting profession under CEPA except that CICPA and HKICPA granted mutual exemptions for a couple of subjects.”

“Personally, HK accounting profession does not expedite the setting of branches in China because of CEPA.”

I Joseph S. Tam (澳門旅遊娛樂股份有限公司 – Joint Chief Accountant)

“Hardly any benefit is seen by CEPA bringing to the accounting profession in HK. However, HKICPA and CICPA have signed up an agreement to give mutual exemptions for certain examination papers. The Government (I believe you are talking about HKSAR Government) did not promote extensive benefits to enable CEPA bring to the accounting profession in HK.”

“Generally, the accounting profession in HK is not aggressive to develop business in China after the launch of CEPA just for that. Accounting firms developed liaison offices instead of branches.”

The opinions of both mentors were surprisingly similar. Both of them admitted that CEPA brought little benefits to accounting profession. The most beneficial measure is the mutual exemption of examination papers granted under CEPA. CEPA did not expedite the development of accounting firms in the mainland. The opinions of our mentors are consistent with number (Table 5) we found. CEPA actually brought far less benefits to accounting profession than what the others thought. And therefore, only 1 accounting firm has applied to the certificate of HKSS. It indicated that CEPA is not that beneficial and attractive to accountants in Hong Kong.

4. Unemployment rate of professionals after the implementation of CEPA

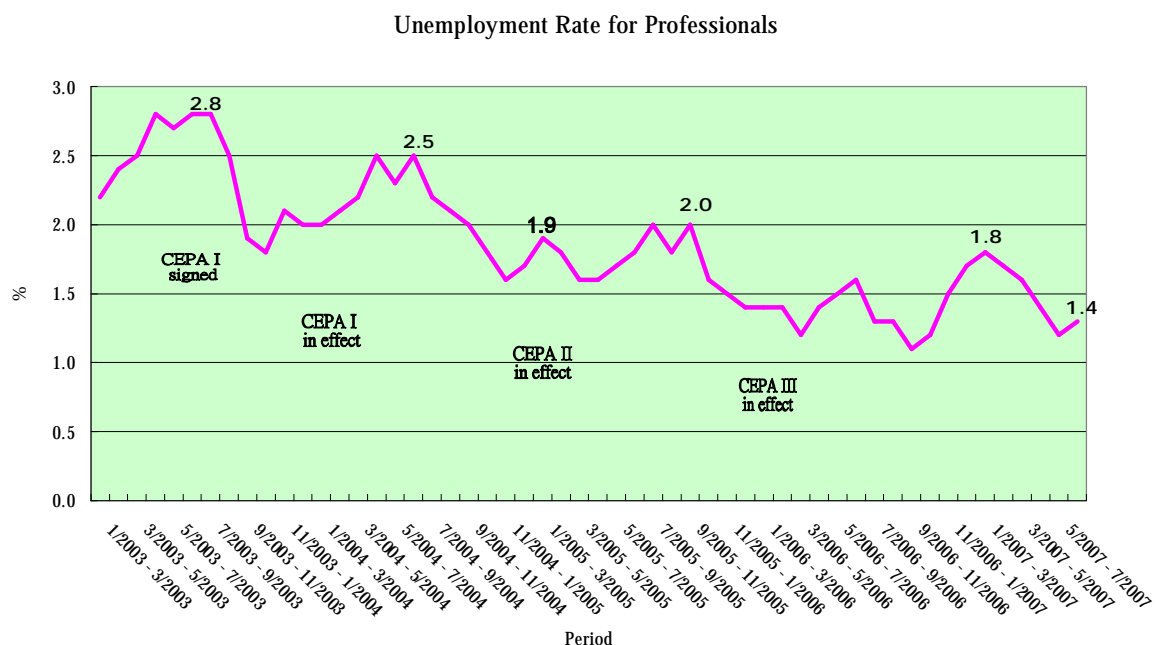


Fig. 4: Unemployment rate for professionals from 2003 to 2007

Although there was a pattern of decreasing unemployment rate, it seemed that CEPA had limited impact on the unemployment rate of professionals. In figure 4, when CEPA I was in effect, the unemployment rate of professionals rose instead of falling down. There were similar effect after CEPA II and III were in effect. The reason for this trend was that the unemployment rate of professionals was more sensitive to other seasonal factors such as the number of fresh graduates entering the market. It was not directly related to the implementation of CEPA. CEPA helped accelerate the recovery of Hong Kong and the decreasing trend of

unemployment rate in professionals was actually a result of the recovery. There was no direct relationship between the unemployment rate of professionals and CEPA.

To conclude, CEPA is not that beneficial to accounting profession. The implementation of it did not actually affect accounting profession directly. It neither accelerates the development of accounting firm in China nor affects the unemployment rate of accounting professionals directly. As a result, accounting profession did not benefit a lot from CEPA.

China Enterprises Exploring the Foreign Market

I. Introduction:

As we have mentioned above, CEPA is a mutual beneficial agreement. Not only does it help Hong Kong enterprises enter the China market, but also helps mainland enterprises explore foreign markets with the help of Hong Kong service providers. Mainland enterprises need knowledge and high-quality support of management, logistics, marketing, capital budgeting and professional services like law and accounting to get into the global market.

According to a survey, over two third of local enterprises in Jiangsu and Shandong plan to explore new foreign markets. The reason why mainland enterprises want to explore and enter the foreign markets is that they can explore new markets and increase earning. Moreover, through international competition, they can enhance their creativity and promote self development. However at the same time, they face several difficulties. The main difficulties they face are as follows, inadequate capital for development, lack of trade channels and network of the whole foreign market, inadequate talented people, incapability of the internal management to support sustainable development and facing difficulties in establish management and accounting standard. After the implementation of CEPA, the economies of Hong Kong and mainland have developed very quickly and there is much cooperation between them. Therefore, Hong Kong can make contribution by acting as a bridge between mainland enterprises and foreign markets.

II. The difficulties faced by mainland enterprises and support Hong Kong can give to mainland enterprises:

1. Inadequate capital for development

Hong Kong stock market is the third most important market for raising capital in the world in 2004 and it surpassed the stock exchange in London and Tokyo. Moreover, Hong Kong is the second largest seed money center in Asia. The investment firms manage over 25% capital in the whole Asian district. Through Hong Kong Stock Market, mainland enterprises can raise enough capital by issuing new shares and the money can be used to expand their business.

2. Lack of the network channel of the whole overseas market
Hong Kong is famous internationally for a free and open economy, as well as the most advantageous business platform in the region. More regional headquarters and offices of multinational firms are located in the SAR than in any other city in the Asia-Pacific. There are more than 10000 overseas firms setting up their district headquarters in Hong Kong and there are about 400 international enterprises setting up purchasing offices in Hong Kong. Mainland enterprises can easily reach overseas companies and buyers in Hong Kong.

On the other hand, Hong Kong is an excellent trading platform. There are nearly 9000 export and import companies and over 300 exhibitions and conferences held in Hong Kong every year. These exhibition and conference attract more than 10000 overseas buyers. Therefore Hong Kong can act as a bridge between China companies and overseas buyers and help facilitate trading between them. Hong Kong is also good at communication technology which facilitates the international trading. Hong Kong ranks as the 1st in this area, while China ranks as 56th. With an excellent exhibition platform and advanced communication technology, mainland enterprises can easily communicate with overseas buyers and explore trading opportunities in overseas markets.

3. Inadequate supply of talented people
Mainland enterprises would like to recruit managers from Hong Kong as many of them have richer international business experience and broader horizons than those in mainland. As Hong Kong people have greater advantages of experience over those in mainland, it creates great pressure to the labor market in mainland and this can help foster the globalization of mainland labor market. In addition, after working and being trained in Hong Kong firms, some Chinese employees can take a higher position in the future.
4. Lack of professional service provider
Hong Kong service sectors can enhance the competitiveness of mainland enterprises, For example, as China enterprises engage in more and more international trading and investment activities, they get involved in many international trading conflicts and antidumping accuses. At that time, they need professional advice from Hong Kong lawyers. Moreover, there is an

increasing demand for logistics and exhibition service in China and Hong Kong can provide such service to them.

5. Facing difficulties in establishing management and accounting standard

Ø Management services:

Through Joint cooperation with Hong Kong companies, Hong Kong firms can introduce their own management service standard to the China enterprises and provide China enterprise employees with learning opportunities of advanced management mode. For example, Guangdong government wants to develop its financial industry, so they hope to promote the development of the finance industry through frequent communication with Hong Kong finance experts. Moreover, Hong Kong international business environment and regulations can help China enterprises adapt to the world economic operation and enhance their management standard.

Ø Accounting services:

China enterprises want to introduce Hong Kong accounting services, so that they can establish international standard and enhance competitiveness. For example, if the China enterprises want to issue their stocks in Hong Kong stock exchange, they must make their financial reports according to Hong Kong accounting standard. In this way, mainland enterprises can learn about international accounting standard and improve their own accounting standard.

To conclude, Hong Kong enterprises can contribute a lot in helping mainland enterprises explore overseas market and both sides can benefit from this act. Apart from the help offered by Hong Kong private enterprises, Hong Kong Government departments also provides assistance to mainland enterprises. For instance, Invest Hong Kong provides free service helping China companies deal with the whole investment process. With the support of Hong Kong Government and private enterprises, mainland enterprises can enter overseas markets more easily.

QDII

I. Definition

QDII stands for Qualified Domestic Institutional Investor. It is an institute which is set up in China and is qualified for investing in foreign stocks, bonds and other financial derivatives.

II. Background

The concept of QDII was first introduced during the seminar titled “strengthening the statue of international financial centre of Hong Kong” in July, 2001. Because RMB is not freely exchanged in market and other capital projects have not yet started, QDII is a temporary arrangement to permit limited investment in foreign stock markets. By the end of September, 2007, there are approved QDIIs of over 40 billion US dollars.

III. Implication

1. QDII provides help for the Chinese fund to find opportunities in the worldwide capital market and this increases investment efficiency. Investors in China can gain experience in investing in the worldwide capital markets and thus they can enhance their knowledge of risk management. In the long run, the investors in China will be more matured.
2. QDII decreases difference of price of Chinese assets in different markets and enhances the development of financial market in China. H shares of red chips become extremely hot after QDII is announced. This is because the PE ratio of stock of the same company is much higher in China than that in Hong Kong. In addition, Chinese investors are more familiar with those red chips which are all originated from China.
3. QDII accelerates RMB exchange in capital accounts and thus helps balancing Macroeconomics in China. According to Associate Director of The People’s Bank of China, Mr Yi, China’s foreign exchange reserve has already exceeded 1,000 billion US dollars and it is still growing too fast. It is because there are favorable balance of payments and balance of trade. QDII serves as a channel for outflow of foreign exchange by investing in foreign markets and hence RMB exchange rate is stabilized.
4. Hong Kong’s H stocks of the state-owned companies are well-known to institutional and individual investors in China. Those investors are even more knowledgeable in those stocks than foreign investors. Also, many different companies in Hong Kong have their branches in China.

Comparing with other places, both companies and investors are familiar with Hong Kong's legal environment and market. In conclusion, Hong Kong is always the first choice for QDII.

5. Transaction figures are significantly boosted as there are more QDIIs in the market and related funds. They need to build up their portfolios by means of acquiring Hong Kong shares. As the figure shown, after QDII became the hot topic in mid August, the transaction figure increases significantly and also the Heng Seng Index became more fluctuated.
6. Capacity of Hong Kong stock market is challenged. As QDII invests in Hong Kong stock market, daily trading in stocks has broken the historical record. Hong Kong Exchanges and Clearing Limited are improving the trading capacity of Hong Kong stock market. This improvement helps Hong Kong to be better-equipped for one of the world's financial centers.
7. Hong Kong stock market becomes more policies-oriented. This is because no matter QDII or the scheme to let Chinese investors buy Hong Kong stocks directly are all policies issued from the Chinese Government. In other words, any change in those policies causes great fluctuation to Hong Kong stock market. After the premier, Mr. Wen Jiabao said the "through train" has to be well considered, Heng Seng index dropped significantly, by over 1000 points.

Politically, QDII is viewed as one of the most important policies of strengthening and developing Honk Kong as an Asia-Pacific, and even a world's financial centre.



Heng Seng Index and Transaction Statistic

Future of CEPA in Hong Kong Service Industry and Accounting Profession

I. In Hong Kong Service Industry

Although it seems that CEPA granted a lot of preferences to Hong Kong service industry, there are still rooms for improvement. By investigating the shortcomings of CEPA, the followings are the framework for CEPA to improve in the future.

1. Eliminating operational limitations

When Hong Kong enterprises entered the mainland market, they met a lot of limitations. For example:

Legal firms: Hong Kong legal firms which operate in the mainland cannot hire mainland lawyers. Unless mainland lawyers are willing to give up their identity as lawyers, they are not allowed to work in Hong Kong legal firms.

However, newly entered Hong Kong legal firms need these mainland lawyers to help get used to the mainland legal system and cultural differences.

Logistics: The guidelines for cross-broader operations are not adequate. This greatly affects their operations in the mainland.

In the future, therefore, CEPA should work on eliminating these operational limitations to help facilitate the development of Hong Kong service industry in the mainland market.

2. Simplifying application procedures and increasing transparency

Many businessmen complained that although the restrictions of CEPA have continuously been relaxed, there are still “many small doors behind the large one”. The problem of complicated application procedures remains the major reason that deters Hong Kong businessmen from entering China market.

For example, the same application has to be made under different cities in China and the application procedures also lack transparency. Some Hong

Kong businessmen complained that they could hardly know about when their application would be completed. The time discrepancies greatly affected their plans on investing in China.

Hence, CEPA should help simplify the application procedures in the future. Besides, some communication channels should also be established for Hong Kong businessmen to inquire about the progress of their application and to settle disputes.

3. Better linkage between the related regulations on foreign-funded enterprises and the CEPA regulations

Although CEPA has offered a lot of preferences to Hong Kong, Hong Kong enterprises entering China are still confined by related regulations and sometimes these regulations are conflicted with those under CEPA. For example:

Logistics: There are 11 laws and regulations related to foreign-funded logistics enterprises, including those established by the Ministry of Commerce, Ministry of Communications, Ministry of Railways, Civil Aviation Administration, National Development and Reform Commission. Moreover, Logistics enterprises hope to develop branches in many cities in China, but they are not allowed to set up independent branches under regulations on foreign-funded enterprises.

Construction: Construction companies are not allowed to undertake a construction job that is fully invested by local-funded enterprises.

Although CEPA aims at providing with a convenient channel for Hong Kong service industry to enter China, the regulations regarding foreign funded enterprises in the mainland restricted their operations. As a result, CEPA should develop better linkage between the regulations under CEPA and that in China, so as to provide a more convenient way for Hong Kong enterprises to work in China.

4. Lower Capital Requirement

As mentioned above, CEPA allows Hong Kong service industry to invest in China with lower capital requirement. However, this measure is only suitable for some service providers such as banking services. The capital requirement for some industries is still relatively high. For instance, if

Hong Kong doctors would like to open a medical clinic in China, the minimum capital requirement was \$20 million under CEPA II. Although the requirement decreased to \$10 million under CEPA III, it is still too high as the capital invested in medical clinics is usually several millions dollars.

CEPA is a preferential document given by the mainland. Therefore, it should not benefit only some industries. It should lower the capital requirement for all industries to a reasonable level instead of lowering the capital requirement for a few fields in Hong Kong.

II. Future of CEPA on service industry and accounting profession

Based on the above shortcomings of CEPA on accounting profession, it is suggested that CEPA should be improved in the following aspects:

1. Creating motives and more promotions

Generally, CEPA should create more motives for accounting profession to enter the mainland market. It should promote the benefits of establishing businesses in China and attract more Hong Kong accountants to enter China.

2. Enlarging areas of mutual exemption of examination papers

Under CEPA, only two subjects, financial management and auditing, are exempted. According to Mandy Tam Heung Man, subjects other than taxation and auditing standard should all be exempted. This is because Hong Kong accountants have professional knowledge that meet the international standard. If CEPA helps increase the number of subjects to be exempted in the future, it would definitely attract more Hong Kong accountants to develop their businesses in China.

3. Lower capital requirement

To set up an accounting firm in China, CEPA requires at least several million dollars of capital. However, it is still an enormous figure for many small accounting firms in Hong Kong. The high level of capital requirement deters small accounting firms in Hong Kong from entering

China. That is why there is only one accounting firm developing business in China through CEPA. In the future, therefore, CEPA should further decrease the capital requirement so as to attract accounting professionals to enter the mainland market.

4. Allowing joint ventures

CEPA allows legal firms to form joint ventures with mainland legal firms. It helps Hong Kong lawyers get used to the legal and political environment in the mainland. However, accounting profession is not allowed to do so under CEPA. It is only allowed to establish branch offices individually. Nevertheless, Hong Kong accounting firms also need guidance from local accountants and this can be obtained through establishing a joint venture with accounting firms in China. Thus, allowing accounting firms to operate in the form of joint ventures would be a strong motive for them to enter the China market.

5. Simplifying application procedures

Currently, if a Hong Kong accountant would like to work in China, he/she has to apply for a “Temporary Business Permit” in addition to passing the examination offered by CICPA. This permit allows Hong Kong accountants to conduct business only in a temporary basis and it has to be renewed every two years. It thus hinders the flexibility of Hong Kong accountants from working in the mainland and creates inconvenience to them. Therefore, there is a need for simplifying the application procedures so as to facilitate the business of Hong Kong accountants in China.

Future of how to bring China to international market

It is seen that the implementation of CEPA not only helps HK enterprises enter the China markets, but also helps mainland enterprises “walk out of China” and explore overseas market.

As China is engaged in WTO, it is likely that more and more mainland enterprises would explore foreign markets and trade with overseas companies. They need to make use of the trading platforms, international trading network and service of Hong Kong to achieve their aim. Therefore, in the foreseeable future, there will be more and more cooperation and integration between Hong Kong enterprises and mainland enterprises. Through frequent communication and cooperation, Hong Kong and China can achieve a “win-win” situation.

Overall Conclusion

Generally, CEPA is definitely beneficial to the economy in Hong Kong. It benefits the overall service industry by offering them to enter the mainland market with lower capital requirement, advantage in time, an increase in methods of entering, and so on. The number of firms which applied for the certificate of HKSS showed that CEPA helped expedite the development of Hong Kong service industry in China. In addition to increasing investment in China, CEPA also stimulated foreign investment on service industry in Hong Kong. Over 25% out of 3,845 firms indicated that CEPA was one of their major considerations when choosing the location of regional headquarters in Asia. Besides, CEPA also helped Hong Kong to get out of the trough after the outbreak of SARS. It created over 20,000 employment vacancies in service industry and accelerated the recovery of the economy of Hong Kong.

However, the coverage of CEPA is not broad enough to benefit all industries in Hong Kong. For example, the accounting profession didn't benefit from CEPA very much. Until April 2007, only one accounting firm applied for the certificate of HKSS through CEPA. Although there is mutual exemption in the professional examination offered by CICPA, it does not actually bring a lot of benefits to accounting profession. In our mentors' opinions, CEPA brought little benefits to accounting profession and Hong Kong accountants were not aggressive in developing their business in China under CEPA. All these indicate that although CEPA benefits the overall economy, there are still rooms for improvement for the details of CEPA in individual industries.

In the future, CEPA should focus on eliminating the operational limitations and establish better linkage with the regulations regarding foreign-funded corporations in China. This can help facilitate the operations of Hong Kong firms which operate in China by reducing the restrictions imposing on them. Moreover, the application procedures should be simplified and more transparent. Communication channels should be established so as to allow Hong Kong businessmen to inquire for the progress of the application and reduce disputes between the Hong Kong businessmen and Chinese government officials. The capital requirement for all industries should also be reduced to a reasonable level so as to attract different fields to develop in China.

In addition to increasing the benefits given to all service suppliers, CEPA should also create motives for accounting profession. In the future, CEPA should ask for more exemptions in professional examination papers. It should also further lower the capital requirement for accounting professionals to invest in China and allow them to operate in the form of joint ventures with accounting firms in the mainland. The complicated application procedure is also one of the big hindrances and thus needed to be removed. By doing all these, there would be definitely more accounting professionals who are willing to set up their business in China.

Although CEPA brings a lot of benefits to Hong Kong, it does not guarantee success. Hence, before entering the mainland market, Hong Kong businessmen should fully understand the political and legal environment of China. A sensible and reasonable marketing research should also be done in order to understand the customers' needs in the market. In spite of the huge population in China, not every one has the ability to buy. Therefore, without doing the above steps, the business could hardly be successful as the mainland market is also a very competitive market.

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I declare that the assignment here submitted is original except for source material explicitly acknowledged. I also acknowledge that I am aware of University policy and regulations on honesty in academic work, and of the disciplinary guidelines and procedures applicable to breaches of such policy and regulations, as contained in the website <http://www.cuhk.edu.hk/policy/academichonesty/>

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