



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Leveraging Government Subsidies for Growth in Hong Kong's Emerging Industries

Business quality assessment, subsidies, challenges and future prospects

 **South China Morning Post**

July 27th, 2023





1992

Dezan Shira's establishment

500+

Our **team** of legal, tax, accounting, business intelligence and audit professionals

3,000+

Multinational **clients** that have already chosen us

80+

Countries served by our professional services

29

Offices in China, Hong Kong SAR, India, Vietnam, Singapore, Indonesia and Mongolia; Liaison offices in Italy, the United States and Germany, and Asian Alliance offices in Malaysia, the Philippines, Thailand, Bangladesh, Japan, South Korea and Taiwan.



Speakers

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Agenda

- 1. Overview of the current business landscape in Hong Kong: Analysing insights from SCMP monitoring**
- 2. Key industries prioritized by the central and Hong Kong government for regional growth: high-end manufacturing, new materials, finance, logistics, and healthcare.**
- 3. Available subsidies for investment in the region: Understanding the eligibility criteria and application process**
- 4. Addressing challenges in the growth of the Greater Bay Area (GBA), with a specific focus on Hong Kong.**

Section 1

Overview of the current business landscape in Hong Kong: Analysing insights from SCMP monitoring



 South China Morning Post | Hong Kong



•#1

MOST TRUSTED NEWSPAPER IN HONG KONG

for 25 consecutive years

•5.5+

Average articles read per session

•1.7M

Hong Kong reach

•35M

Global reach

SCMP on Hong Kong's future in the GBA

Summary: The city is making efforts to rebound economically since lifting Covid controls in late 2022. And its role as a bridge between mainland China and the world remains intact, esp. in areas of finance, tech and green energy that are HK-GBA talking points. But barriers keep coming up.

- **On a holistic city development:**

Hong Kong's Northern Metropolis master plan, a bold proposal to build a new I&T hub will drive integration with Shenzhen and the Greater Bay Area

(<https://www.scmp.com/country-reports/special-reports/topics/hong-kong-business-report/article/3224887/hong-kongs-northern-metropolis-master-plan-explained-how-bold-proposal-build-new-it-hub-will-drive>)

- **On sectoral development:**

Authorities in Hong Kong and mainland China are in consensus on a number of measures that will enhance the cross-border Wealth Management Connect and Bond Connect schemes

(<https://www.scmp.com/business/banking-finance/article/3228506/hong-kong-mainland-regulators-agree-enhance-wealth-management-and-bond-connect-schemes-during-three>)

Hong Kong firms are well-placed to take advantage of low-carbon opportunities given the crisis facing their mainland rivals, but the mainland's economic situation warrants caution

(<https://www.scmp.com/business/china-business/article/3227677/greater-bay-area-will-chinas-property-slump-foil-hong-kong-developers-multibillion-dollar-bets>)

The banking sector must boost training for new and existing employees to meet present and future challenges, says Arthur Yuen, deputy head of the Hong Kong Monetary Authority

(<https://www.scmp.com/business/china-business/article/3220212/hong-kong-banking-sector-should-double-down-training-talent-fintech-sustainable-finance-says-hkma>)

- **On People's movement**

Hong Kong explores smoother cross-border travel with Shenzhen for I&T talent to spur growth of proposed San Tin Technopole

(<https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3228017/hong-kong-explores-smoother-cross-border-travel-it-talent-spur-growth-proposed-san-tin-technopole>)

Hong Kong and global graduates, motivated by high salaries, eye career in finance in post-Covid-19 era: CFA Institute survey (<https://www.scmp.com/business/article/3223946/hong-kong-and-global-graduates-motivated-high-salaries-eye-career-finance-post-covid-19-era-cfa>)

Some issues that elicited discussions on labour and productivity in town:

With depression in focus after Coco Lee's death, experts say 'Happy Hong Kong' campaign not enough to stem mental illness among residents

(<https://www.scmp.com/news/hong-kong/health-environment/article/3226976/happy-hong-kong-campaign-not-enough-tackle-increasing-rates-depression-among-residents-experts-say?module=storypackage&pgtype=sport>)

Hong Kong Star Ferry captain died due to an "unbelievable" work roster

(<https://www.scmp.com/news/hong-kong/transport/article/3219229/hong-kong-star-ferry-captain-dies-after-collapsing-vessel-industrial-accident>)



87 million
Total Population



56,000 km²
Area



\$1,679.5bn
GDP

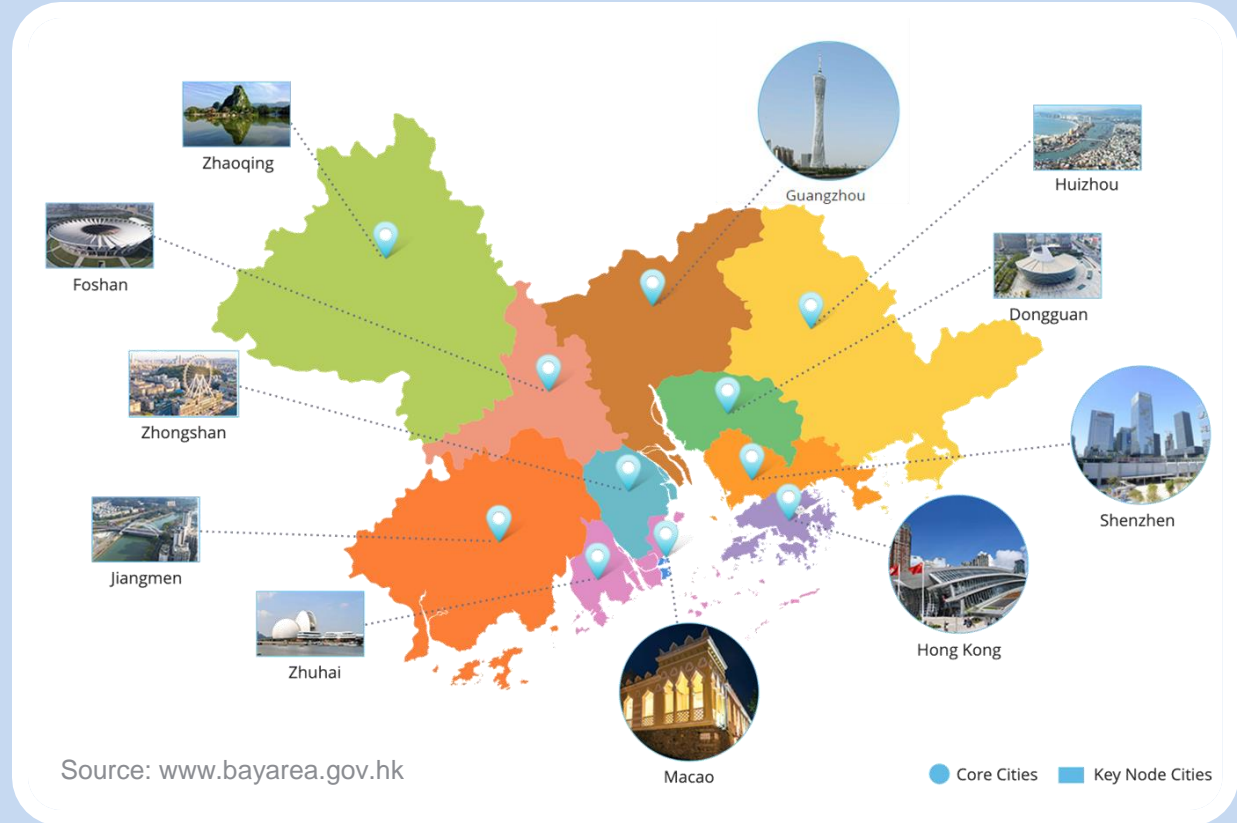


\$22,585
GDP per capita

GBA Cities in Tiers



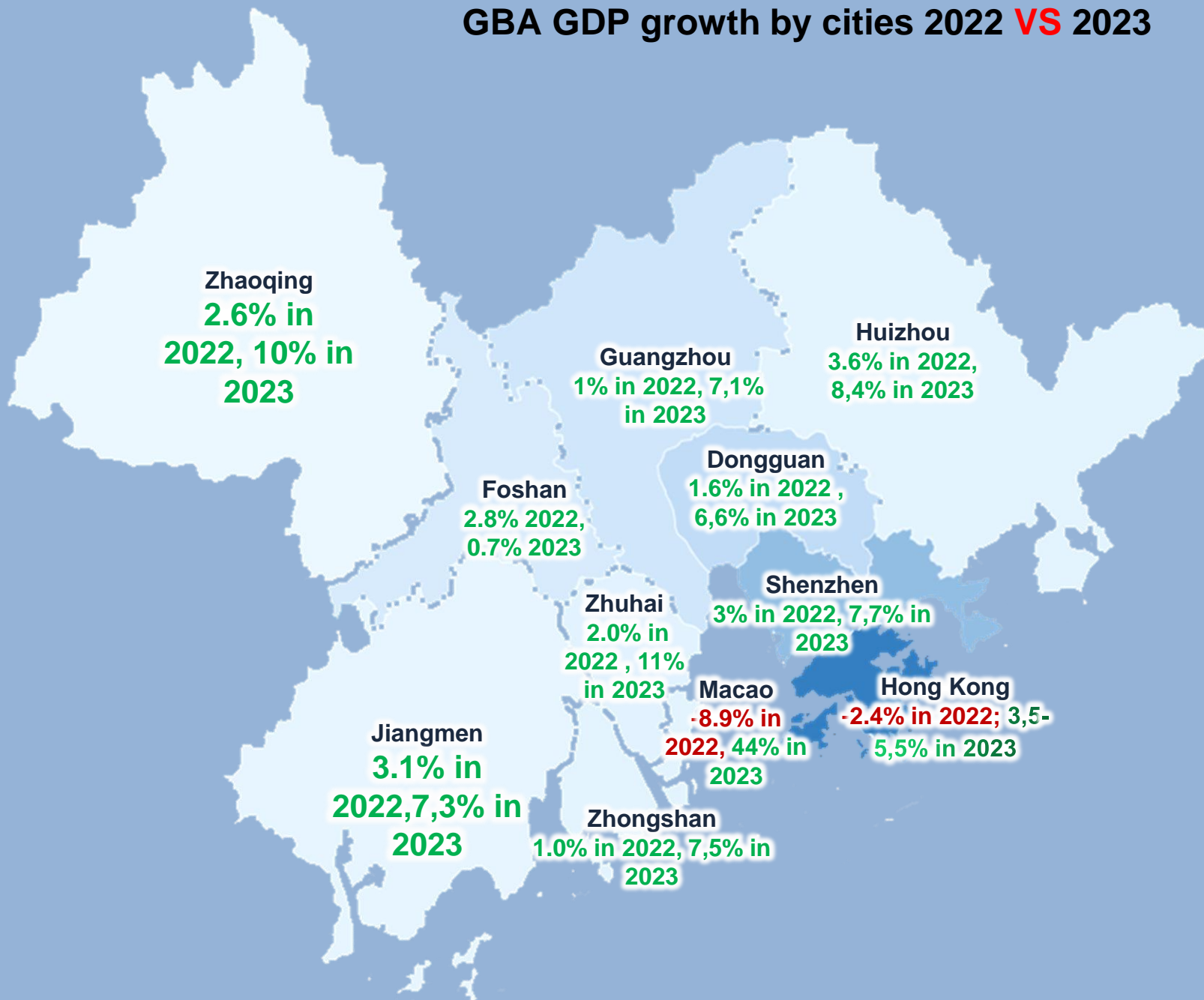
11 Cities 9+2



Predictions for 2023:

China will grow **5,6%**; Guangdong **5,2%**; Hong Kong SAR **3,5%- 5,5%**

GBA GDP growth by cities 2022 VS 2023



Guangdong Province: **5.2%**

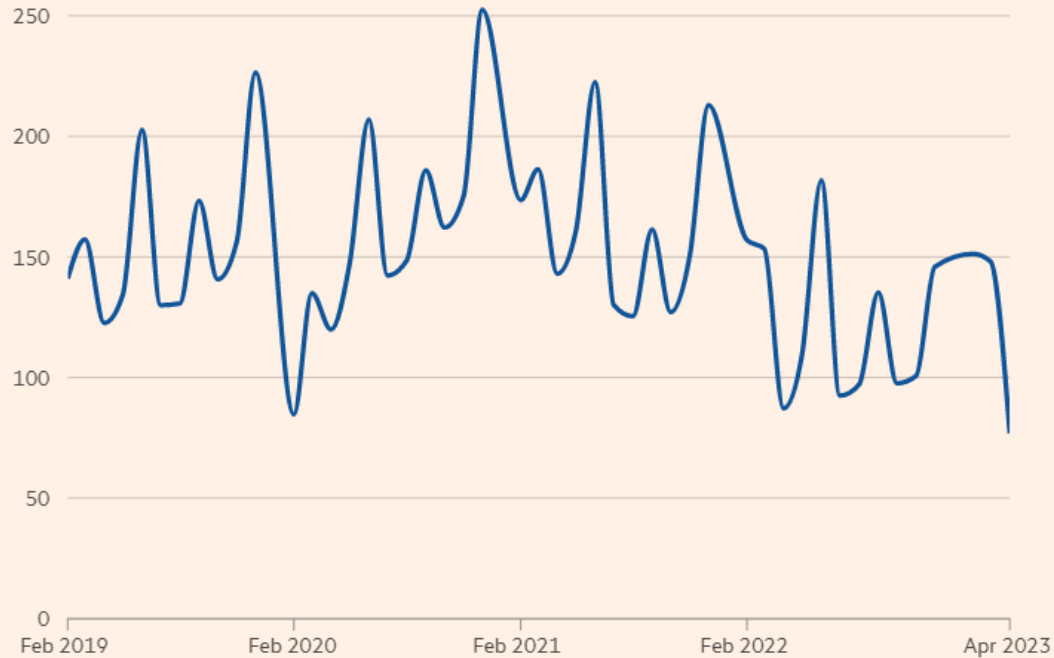
Macau GDP the highest growth.

“Hong Kong Is back in business.”
- Paul Chan, Financial Secretary (October 2022)

Property and Real estate

Property sales losing steam four months after reopening

Monthly housing sales by area (mn square metres)



Source: National Bureau of Statistics of China, FT calculations • February numbers include January sales
FT Data: Andy Lin/@imandylin2

FINANCIAL TIMES

- GBA accounted for **29 %** of China's real estate investment in 2022 – the highest level since 2018
- Home sales in the GBA will increase by **20 to 25%** in 2023
- Hong Kong buyers are target for Mainland Developers
- Macao's market is growing faster than other cities in the GBA.

Consumption, Manufacturing and Property Sector



- Retail Sales in China have been lower post-pandemic
- Industrial production also lower due in part to decrease of PPI
- Loans started well in January but show decrease. Government already stated they will intervene and make loans rates lower and more broadening
- Naturally new housing starts have been lower across the country

Youth unemployment

Causes & Solutions:

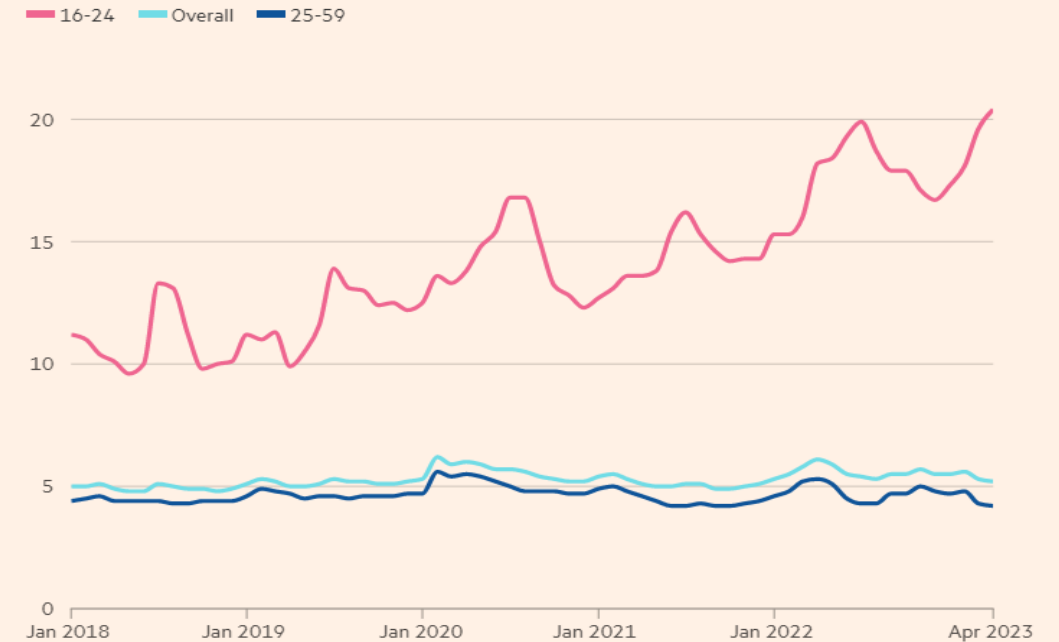
- Covid-19 disruption
- Supply of fresh graduates does not meet demand.
- Real estate sector in crisis
- Service and retail have suffered in the past 3 years.

- State-funded employment
- SOEs to hire fresh graduates
- Service market needs to recover.

'Education reform is imminent': China seen wasting too many advanced degrees - SCMP (19 July 2023)

China's youth unemployment has hit 20% while the jobless rate among older workers has barely increased

Unemployment rate in urban areas (%)



Source: Wind
FT Data: Andy Lin/@imandylin2

FINANCIAL TIMES

- China unemployment rate in the 3rd quarter is **5,2%** and youth unemployment is **20,4%**
- Hong Kong is **3%** and youth unemployment is **5%**

Section 2

Key industries prioritized by the central and Hong Kong government for regional growth:

High-end manufacturing, new materials, finance, logistics, and healthcare.

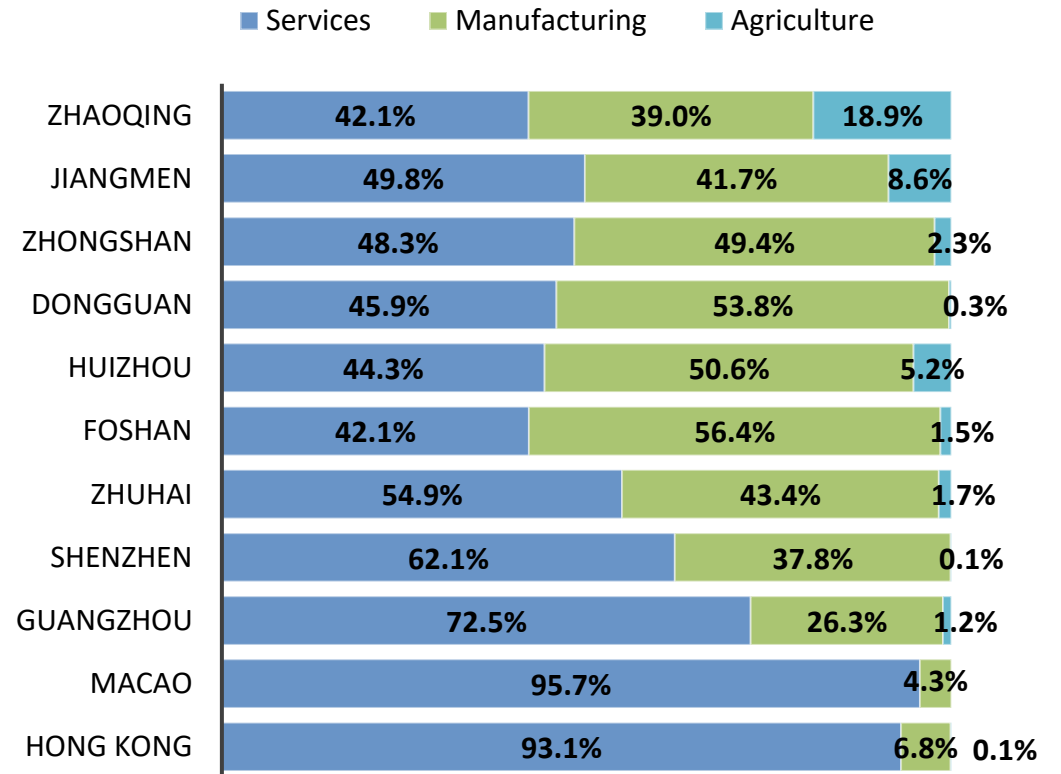
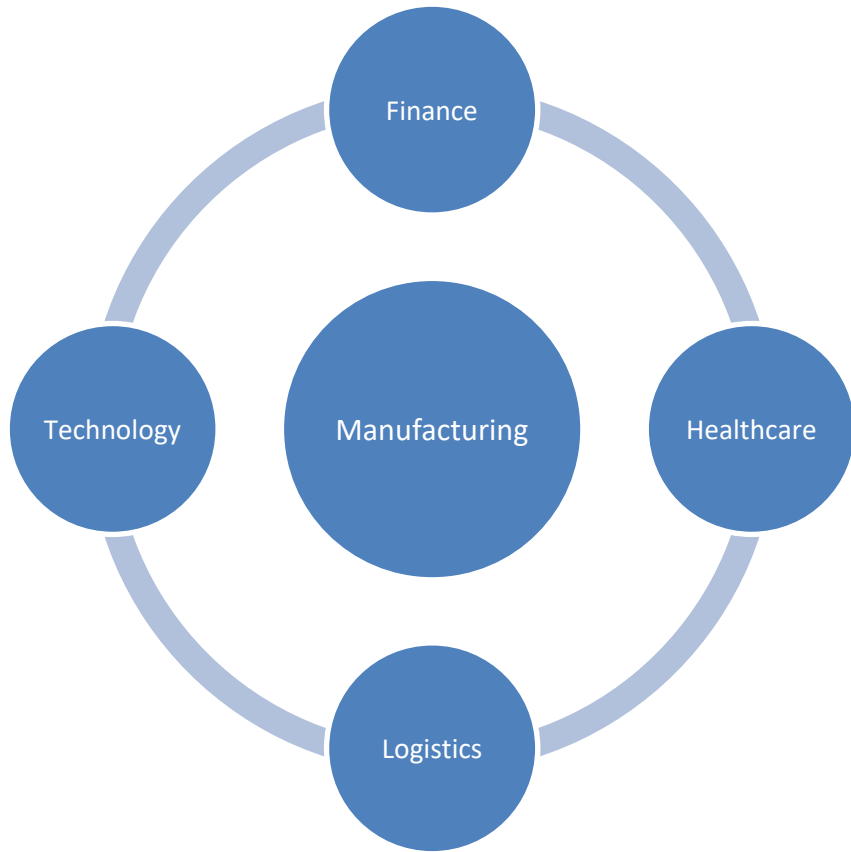


GBA Cities in Tiers: ■ Core Cities ■ Tier 2 ■ Tier 3



- Main pillars of the GBA**
- Technology and innovation
 - Financial Services
 - Trade and Logistics
 - Real Estate
 - Professional Services
 - Infrastructure
 - Healthcare/Life Sciences
 - Manufacturing
 - Education
 - Retail

The Pillars of the GBA



State of the healthcare Market in China

China's Healthcare Market at a Glance, 2021



Market size

Total revenue (est.)
RMB 10 trillion (approx. US\$1.5 trillion)

Healthcare services (est.)
RMB 8 trillion (approx. US\$1.24 trillion)



Projected growth rate

Revenue CAGR (2023-2027)
9.56 percent



Expenditure

RMB 7.6 trillion (approx. US\$1.2 trillion)
Percent of GDP
6.5

Per capita
RMB 5,348 (approx. US\$829)



Healthcare institutes

Total
1 million

Hospitals
36,570



Healthcare personnel

Total
13.99 million

Practicing doctors
4.3 million

Registered nurses
5 million



Healthcare resources

Total beds
9.45 million

Hospital beds
7.4 million

Beds per 1,000 people
6.7



Demand

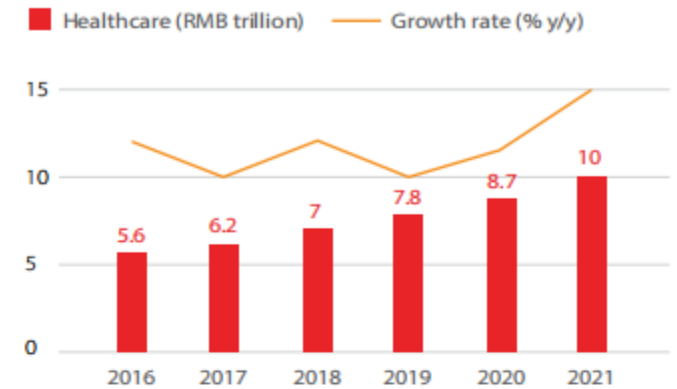
Hospital visits
3.9 billion

Hospital stays
201.6 million

Source: China National Bureau of Statistics, Statista, 2022 CEC Capital China Healthcare Industry White Paper

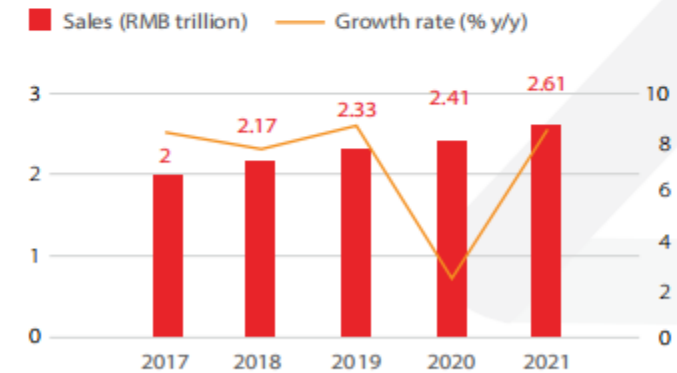
Note: Exchange rate is average rate of exchange in 2021.

Growth of China's Healthcare Market, 2016 to 2021



Source: CEC Capital, open-source reports

Growth in Sales of Pharmaceutical Products, 2017 to 2021



Note: Includes seven major categories of pharmaceutical products: Western medicine, Chinese patent medicine, Chinese medicinal materials, medical equipment, chemical reagents, glass instruments, and others.

Source: National Medical Products Administration

Section 3

Available subsidies for investment in the region:

Understanding the eligibility criteria and application process



ONE Subsidies for foreigners

“In March 2019, Central government released *Preferential Individual Income Tax Policies*, aiming to subsidize foreigners working in GBA area.”

Target people

- Hong Kong, Macao, Taiwan and overseas high-end talents and critically lacking talents working in GBA area
- Each cities will have its own detailed requirements

Subsidy Amount

- Subsidy amount= Tax paid in GBA-taxable income * 15%

e.g
Taxable income: 1,000,000
Income tax: 268,080 (27%)
Subsidy: : $268,080 - 100-000*15\%=118,080$

Valid Date

- 2020-01-01 to 2023-12-31
- 2020 and 2021 subsidies have been successfully released
- 2022 subsidy did not occur

Application requirements



Identity

1. Foreigners
2. Residents of Hong Kong and Macao
3. Residents of Taiwan
4. Overseas Chinese



Work

1. Employed by Entities registered in GBA Cities
2. Some cities require working in the cities for over 90 days (SZ, GZ)



Talents

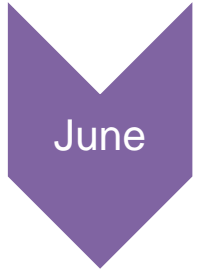
- High-end Talents
e.g With working permit A or B
 - Critically lacking Talents
e.g key personel / key industry
- Each city has its own talent list**



Others

1. Abide by laws and regulations
2. Pay IIT in accordance with law and finish annual tax filling as required
3. Has a Class I (full-function) settlement bank account in mainland China

Application process



Check list



Requirement

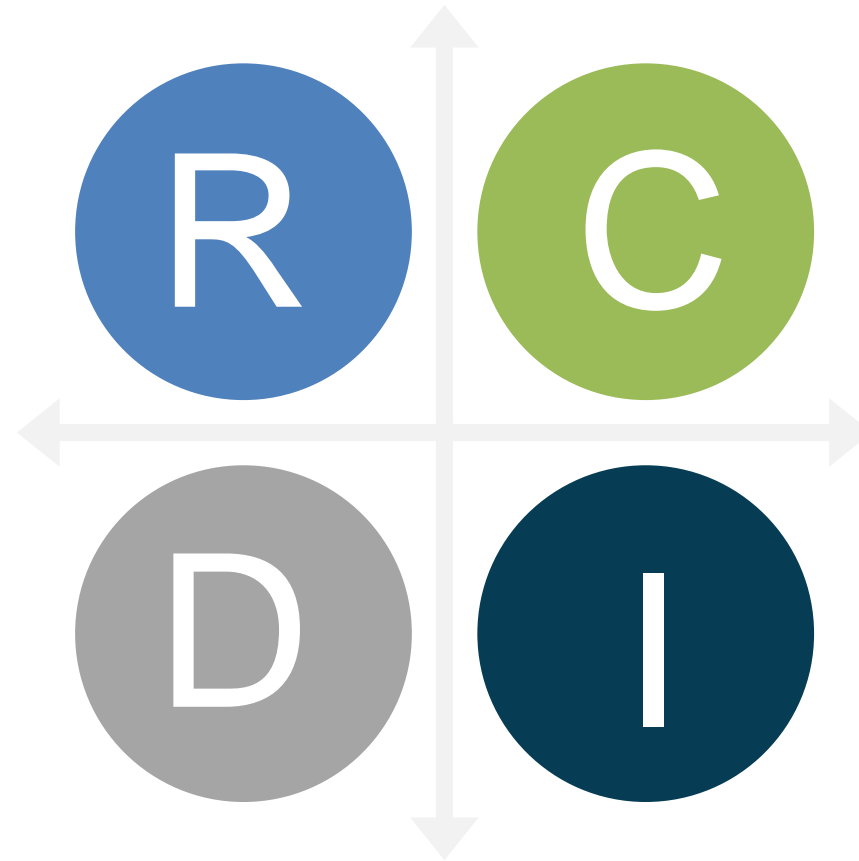
Do I meet the requirement?

High-end talents? Or Critically lacking talents?

Materials

Can I provide the required materials?

Can company chop on the materials?



Communication

If my individual income tax is borne by my company, can I get the subsidy?

IIT

Have I declared and paid IIT correctly in 2021?

Have I finished the IIT annual filling as required?

Is my tax file qualified for the application?

Other Subsidies and Measures in the GBA

- **Reduced corporate income tax rate (CIT) of 15%**
 - ✓ Technology,
 - ✓ High-end Manufacturing
 - ✓ Modern Services
 - ✓ Finance Services

- **Reduced CIT of 15% in Qianhai 30 sectors that cover**
 - ✓ Modern Logistics
 - ✓ Information Services
 - ✓ Technology Services
 - ✓ Cultural And Creative Industries
 - ✓ Commercial Services

Note: Similar situation in Hengqin and Nansha

VAT exemption and export rebates:

Income of insurance premium for international shipping derived by insurance enterprises registered from enterprises registered in Nansha will be exempt from VAT.

Note: on a national level companies with sales under CNY 100,000 shall be exempted from VAT.

- Earlier **export tax rebate** in the GBA

Tax Incentives/government subsidies in Shenzhen

Corporate Income Tax Preferential Catalogue in Qianhai Qianhai FTZ

Modern Logistics

- Supply Chain Management Services like Supply Chain solution design, order management and execution, virtual manufacturing, information management, consulting services, etc.
- Onshore and offshore logistics outsourcing service;
- Development and operation of modern logistics technology and logistics public service system;
- Settlement and management of third-party logistics

Science and Technology Service Industry

- Professional technology services in different industries, including new energy, advanced materials, biological medicine and low-carbon environmental protection, etc.
- Research, development and service of emerging science and technology like gene sequencing, stem cells, functional protein, life health, etc.
- Research, development and service of new energy battery, three-dimensional display and print technology;
- Advanced technology service of information technology outsourcing, business process outsourcing, knowledge process outsourcing, etc.

Tax Incentives/government subsidies in Shenzhen

Corporate Income Tax Preferential Catalogue in Qianhai Qianhai FTZ

Information Service Industry

- Telecom value-added business application system development;
- Technology development of electronic authentication, e-commerce and e-government affairs;
- Information security technology research and development services;
- Data mining, data analyzing, data service and digital resources development;
- Research and development on a new generation of mobile communication network, the next generation of Internet technology based on IPv6;
- Research and development on satellite communication technology;
- Research, development and service of General software, industry application software, embedded software;
- Research, development and service of cloud computing, the Internet of things, trustworthy computing, intelligent network, big data, etc.

Cultural Creative Industry

- Creative design services in graphic design, package design, advertising design, interior design, landscape design, industrial design, costume design, etc.
- Cultural information resources development;
- Research, development and service on network audio-visual program;
- Development and creation of animation and online games ;
- Research, development and service of new media technology.

Tax Incentives/government subsidies in Shenzhen

Government Subsidy in Shenzhen (non-exhaustive list)

- Subsidy for R&D, could reach **RMB 10 million.**
- Subsidy for investment in technological transformation, could reach **RMB 10 million.**
- Subsidy for startups, could reach **RMB 1 million.**
- Subsidy for talents, could reach **RMB 6 million.**
- Subsidy for High and New Technology Enterprise, could reach **RMB 350,000;**
- Subsidy for patents and software copyrights, could reach **RMB 20 million;**
- Subsidy for loan interest, could reach **RMB 10 million.**
- Subsidy for export credit insurance, could reach **RMB 3 million;**
- Subsidy for professional services companies, could reach **RMB 2 million;**
- Subsidy for circular economy and energy saving and emission reduction, could reach **RMB 15 million;**
- Subsidies for multinational companies that establish headquarters in Shenzhen between **3-6 million RMB**

Subsidies in Hong Kong to help revitalize the economy

45 types identified!!



1.

SME Export Marketing Fund
Trade and Industry Department



中小企業市場推廣基金
SME Export Marketing Fund

Objective:
To encourage SMEs to expand their markets outside Hong Kong by providing financial assistance to SMEs for participation in export promotion activities.

Maximum Funding Amount:
HKD1,000,000

Eligibility:
Enterprises

2.

Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund)
Hong Kong Productivity Council



發展品牌、升級轉型及
拓展內銷市場的專項基金
Dedicated Fund on Branding,
Upgrading and Domestic Sales


Objective:
To provide funding support for individual non-listed Hong Kong enterprises to undertake projects to develop brands, upgrade and restructure their business operations and promote sales in the Mainland (the Mainland Programme) and other markets with which Hong Kong has signed Free Trade Agreements (FTA) and/or Investment Promotion and Protection Agreements (IPPA) (the FTA and IPPA Programme), so as to enhance their competitiveness and facilitate their business development in these markets.

Maximum Funding Amount:
HKD7,000,000

Eligibility:
Enterprises

3.

Trade and Industrial Organisation Support Fund
Trade and Industry Department



工商機構支援基金
Trade and Industrial
Organisation Support Fund

Objective:
To provide financial support to non-profit-distributing organisations to implement projects which aim at enhancing the competitiveness of non-listed Hong Kong enterprises in general or in specific sectors.

(Remarks: It is a merger between the previous SME Development Fund (SDF) and the Organisation Support Programme (OSP) under the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund).)

Maximum Funding Amount:
HKD5,000,000

Eligibility:
Organisations

4.

SME Financing Guarantee Scheme
HKMC Insurance Limited

中小企融資擔保計劃
SME Financing Guarantee Scheme

Objective:
To help local SMEs and non-listed enterprises obtain financing from the participating lenders for meeting their business needs so as to enhance their productivity and competitiveness in the rapidly changing business environment.

Maximum Funding Amount:
HKD18,000,000

Eligibility:
Enterprises



Highlights of the 30 Financial Measures of Qianhai

Qianhai's 30 Financial Support Measures

Measures	Implementation Details
Help Hong Kong residents open mainland bank accounts	<ul style="list-style-type: none">Expand the scope of pilot banks for Hong Kong residents to open mainland type II and type III personal bank accounts through an attestation service
Facilitate cross-border investment and financing for Hong Kong enterprises	<ul style="list-style-type: none">Support qualified Hong Kong-funded small and micro enterprises in the <i>Qianhai Co-operation Zone</i> to obtain RMB loans up to RMB5 mn from banks outside China
Support Hong Kong professionals practising in Qianhai	<ul style="list-style-type: none">Encourage Chinese-funded securities and futures firms in the <i>Qianhai Co-operation Zone</i> to raise the proportion of Hong Kong employees in their workforce
Support Hong Kong's development as an asset management centre	<ul style="list-style-type: none">Allow private banks and family wealth management institutions to establish specialised institutions in the <i>Qianhai Co-operation Zone</i>
Facilitate credit financing for Hong Kong residents	<ul style="list-style-type: none">Allow qualified Hong Kong-funded commercial banks in the <i>Qianhai Co-operation Zone</i> to share Hong Kong residents' credit information with their parent banks in Hong Kong
Promote the development of green finance	<ul style="list-style-type: none">Support financial institutions in the <i>Qianhai Co-operation Zone</i> with green financial product innovation
Expand the business scope of Hong Kong-funded financial institutions	<ul style="list-style-type: none">Help branches of overseas banks in the <i>Qianhai Co-operation Zone</i>, in particular Hong Kong banks, gain qualifications as fund custodians

Source: *Opinions on Providing Financial Support for Comprehensively Deepening Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone*

Section 4

Addressing challenges in the growth of the Greater Bay Area (GBA), with a specific focus on Hong Kong



SCMP on challenges in Greater Bay Area's growth

Summary: China's overall economic development to maintain growth and attract foreign investors, as well as historic endemic differences across the region threaten to set back the GBA's growth in the near term, even with Hong Kong money in the mix.

- **The connectivity between Hong Kong, Macau and Guangdong**

A megacity concept requires Hong Kong, Macau and Guangdong administrations to merge their economies, cultures, politics and legal systems. But how can Hong Kong, Macau and Guangdong, merge not just economically, but from a cultural, political and legal point of view?

<https://www.scmp.com/special-reports/business/topics/special-report-greater-bay-area/article/2147716/can-chinas-greater-bay-area-integrate>

- **Promotion and facilitation for people/investors to work and live in the Greater Bay Area**

Hongkongers are put off jobs in the region due to lower wages, while mainland employers are reluctant to hire from the city because of the expense and hassle

<https://www.scmp.com/economy/china-economy/article/3186368/china-wants-hong-kong-integrate-greater-bay-area-can-it>

Saudi Arabia's top diplomat in southern China addresses three key problems that must be overcome when doing business in an economic and business hub – tax alignment, multiple currencies and beneficial policies

<https://www.scmp.com/economy/china-economy/article/3228081/chinas-greater-bay-area-future-asia-top-saudi-diplomat-says-investors-can-bet-it>

China's Greater Bay Area needs streamlined legal systems, says Baker McKenzie arbitration chief

<https://www.scmp.com/special-reports/business/topics/special-report-greater-bay-area/article/2147328/chinas-greater-bay>

The GBA includes some of China's most dynamic cities, with abundant expertise in trade, manufacturing, services, and hi-tech innovation. But for investors to capitalise on the opportunities, leading banks and financial institutions must ensure the requisite services, infrastructure and personnel are in place to assist development, finance trade, facilitate investment, and generally smooth the way. <https://www.scmp.com/special-reports/business/topics/special-report-greater-bay-area/article/2147708/greater-bay-area>

- **China's challenges on maintaining a high-growth economy**

China population: Guangdong suffered first decline last year in over 4 decades, underlining demographic and economic woes

<https://www.scmp.com/economy/economic-indicators/article/3217594/china-population-guangdong-suffers-first-decline-over-4-decades-underlining-demographic-and-economic>

Home transactions in the Greater Bay Area involving Hongkongers sank 46 per cent to 161,000 in 2020 due to the stringent border restrictions amid the Covid-19 pandemic, according to Centaline Property Agency

<https://www.scmp.com/business/article/3130428/greater-bay-area-hongkongers-seen-boosting-demand-homes-banks-dangle>

2035 GBA development plan

*The GBA is an international innovation center of strategic importance, with development goals clearly defined in 2019's **Development Outline of the Guangdong-Hong Kong-Macao Greater Bay Area**. By **2035** the GBA should have formed an economic system and development model founded on innovation, improved its economic, scientific, and technological strength, enhanced its international competitiveness and influence, and cemented its status as a first-class international bay area where people can live, work, and visit.*

14th Five-Year-Plan

STRATEGY of the GBA:

- Platform for strengthening national strategic scientific and technological forces
- Engine of high-quality development
- Strategy for regional development synergizing with nearby regions
- Bridge that supports the integration of hong kong and macao into national development



The Greater Bay Area Strategy and (long term) vision



Hong Kong and Mainland Integration

- Joint Agreement to establish a One Zone , Two Parks System within the SZ- HK
- Comprises - HK-SZ Innovation and Technology Park (HSITP) and the SZ Innovation and Technology Zone (SZ I&T Zone)

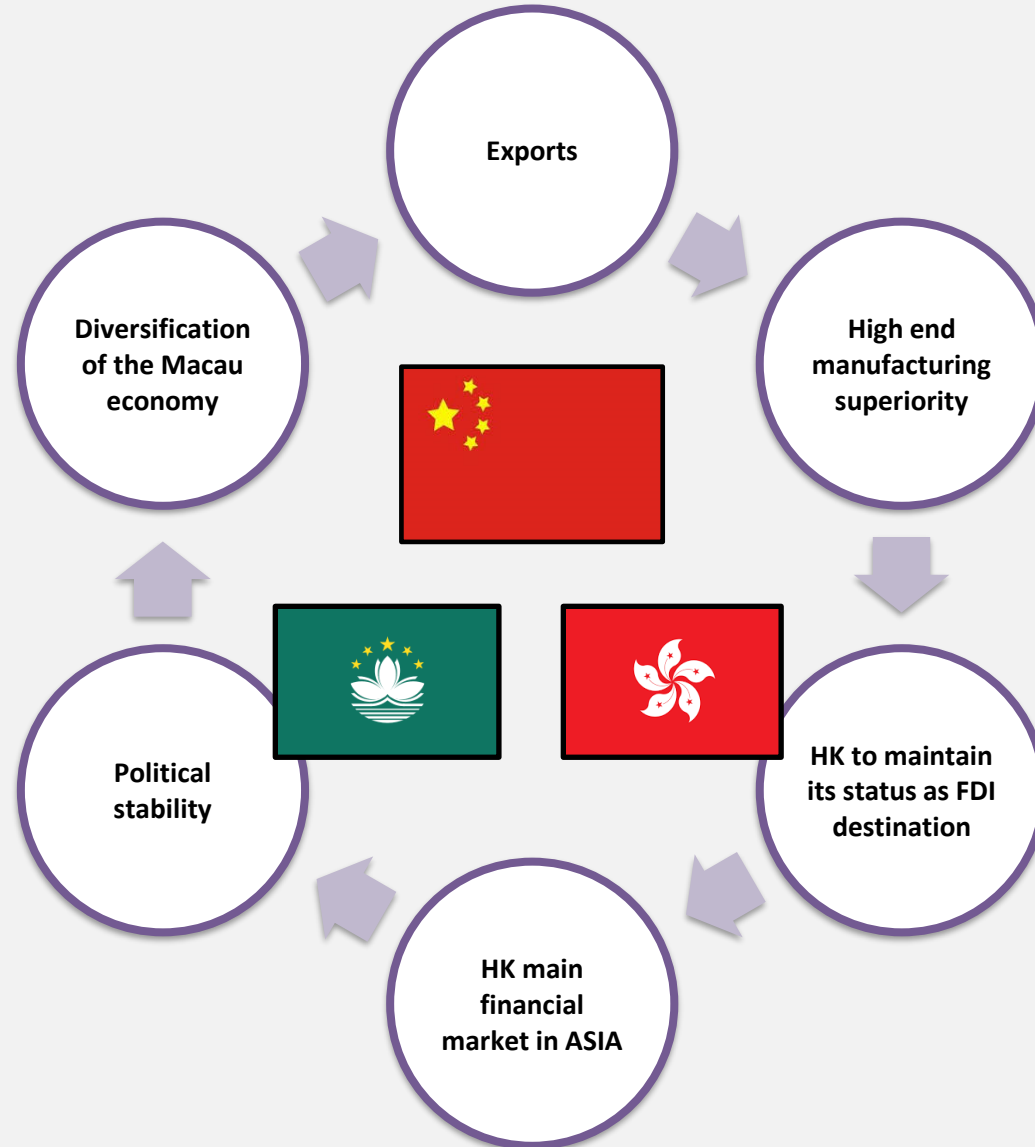


Why is this great?

- Support for HK to become an IT hub
- More cooperation between HK and Mainland in IT
- Breaking of Institutional barriers
- Focus on R&D



Challenges to the GBA





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