

**Motion on “Promoting regional economic integration
between Guangdong and Hong Kong”
passed at the Legislative Council Meeting
of 4 May 2011**

Progress Report

Purpose

At the Legislative Council meeting on 4 May 2011, the motion moved by Hon Andrew LEUNG Kwan-yuen, as amended by Dr Hon Samson TAM Wai-ho, Hon WONG Kwok-hing, Hon Miriam LAU Kin-yea and Hon CHAN Kam-lam, on “Promoting regional economic integration between Guangdong and Hong Kong” (the Motion) was carried. The wording of the Motion is at Annex.

2. This report briefs Members on the progress of the areas covered in the Motion.

Work Progress

Assisting Hong Kong businessmen with manufacturing businesses in the Pearl River Delta Region in upgrading and restructuring (Item (a))

3. The Hong Kong Special Administrative Region (HKSAR) Government will continue to encourage and help Hong Kong businessmen with manufacturing operation in the Pearl River Delta Region to upgrade, restructure and open up the Mainland domestic market, and assist them in adjusting to the latest Mainland policy on processing trade through the following measures:

(a) maintaining close dialogue with the trade so as to understand their concerns and views; and maintaining close liaison with the Mainland authorities to convey the trade’s views on problems relating to opening up the domestic market and upgrading and

restructuring their businesses, and discuss with them measures to support the trade;

- (b) disseminating information to Hong Kong enterprises by means of circulars and newsletters, and organising activities like symposiums and seminars through the Trade and Industry Department (TID) and Mainland Offices to enhance the trade's understanding of Mainland's new policies, legislation and business environment;
- (c) organising promotional activities and trade fairs through the Hong Kong Trade Development Council (HKTDC), and organising business delegations to visit the Mainland with a view to enhancing the trade's understanding of Mainland policies and market development;
- (d) providing Hong Kong enterprises with support services on technological upgrading, management improvement, branding and market development, etc, and also Mainland market information through the HKTDC and the Hong Kong Productivity Council; and
- (e) assisting enterprises in upgrading, restructuring and opening up Mainland markets through various funding schemes, including the Small and Medium Enterprise Funding Schemes, Innovation and Technology Fund, Research and Development Cash Rebate Scheme, and the dedicated fund of \$1 billion proposed by the Chief Executive in the 2011-12 Policy Address to help Hong Kong enterprises in upgrading and restructuring, as well as tapping the Mainland market.

Provide Small and Medium Enterprises with financial support for upgrading, restructuring and opening up domestic markets (Items (b) and (m))

4. To support Hong Kong enterprises to upgrade, restructure and open up Mainland domestic market, the HKSAR Government

currently provides financial assistance to Small and Medium Enterprises (SMEs) through various funding schemes, in order to help them carry out marketing and promotion activities, purchase equipment, upgrade the operation and technical standard, as well as restructure and relocate their business. The HKSAR Government encourages SMEs to make full use of these resources to upgrade and restructure and to develop and promote their brands and products. The HKSAR Government has also established the Professional Services Development Assistance Scheme to provide financial support for projects which aim at increasing the competitiveness of Hong Kong's professional service sector as a whole, or of individual sectors, in external markets including the Mainland market.

5. The HKSAR Government keeps the operation of the various funding schemes under review and makes adjustments to the schemes when necessary. To provide continued support to SMEs, the HKSAR Government obtained the approval of the Finance Committee of the Legislative Council on 18 July 2011 to substantially increase the total guarantee commitment under the SME Loan Guarantee Scheme from \$20 billion to \$30 billion; and to increase the approved commitments for the SME Export Marketing Fund and SME Development Fund by \$1 billion.

6. To help Hong Kong enterprises tap the Mainland market, the Chief Executive proposed in the 2011-12 Policy Address the setting up of a dedicated fund of \$1 billion to encourage enterprises to move up the value chain and build brands by leveraging Hong Kong's strengths in design. The HKSAR Government will draw up the implementation details as soon as possible and liaise with the trade and relevant organisations in the next few months. The Commerce and Economic Development Bureau plans to submit the funding application to the Finance Committee of the Legislative Council in the first half of 2012.

Supporting local enterprises to develop small-scale technologies
(Item (c))

7. Through the Small Entrepreneur Research Assistance Programme (SERAP) under the Innovation and Technology Fund (ITF), the Government provides funding support to local small and medium-sized technology enterprises to undertake applied research projects (funding ceiling at HK\$4 million). SERAP provides funding on a dollar-to-dollar matching basis. As at end September 2011, 349 projects involving a total funding of HK\$383 million were approved.

8. The Information and Technology Commission is reviewing the SERAP to identify any possible further enhancements that can bring about a greater impact and more effectively support the research and development (R&D) of small and medium-sized enterprises.

Assisting Hong Kong enterprises in Guangdong Province to enhance innovation and scientific research capability (Item (d))

Guangdong/Hong Kong Technology Co-operation Funding Scheme

9. Since 2004, the Guangdong and Hong Kong authorities have supported technological collaboration between the two places through the “Guangdong/Hong Kong Technology Co-operation Funding Scheme” (the GD/HK TCFS), with a view to promoting the development of advanced technology and commercialisation of R&D results in the two places. The two sides have jointly supported more than 30 projects with a total funding of about HK\$200 million. This year the GD/HK TCFS was launched in August 2011.

Transform, Upgrade and Relocate for a New Horizon Service by Hong Kong Productivity Council

10. In response to the changes in the policies of the Mainland on trade and manufacturing industry, Hong Kong Productivity Council launched in 2008 the “Transform, Upgrade and Relocate for a New Horizon” (TURN) service platform to assist Hong Kong manufacturers in the Pearl River Delta Region in industrial upgrading

and business transformation. Its services include business process re-engineering, production technology upgrading and automation, information and technology management, brand building, low-carbon manufacturing, industrial design and study and assessment on manufacturing base relocation.

Assisting enterprises in developing green economy in Guangdong Province (Item (d))

11. To support local environmental services providers in developing the Mainland market, we launched a five-year Cleaner Production Partnership Programme (the Programme) in collaboration with the Guangdong authorities in 2008 to encourage and facilitate Hong Kong-owned factories in the Pearl River Delta region to adopt cleaner production technologies and practices. There are currently 93 local environmental technology services providers registered under the Programme to provide technical services for participating factories to adopt cleaner production. The HKSAR Government has earmarked more than HK\$93 million for the implementation of the Programme. In addition, the liberalisation measures under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) have covered the environmental services sector. They allow Hong Kong service suppliers to set up wholly-owned enterprises in Guangdong to provide environmental protection services. To further promote the development of Hong Kong's environmental industries in the Mainland, the HKSAR Government supports Hong Kong's environmental services providers to participate in environmental services exhibitions in the Mainland, and helps organise related visits and exchanges. These will allow local environmental industries to share their experiences and explore business opportunities with their Mainland counterparts so as to better seize the green economy opportunities in Guangdong.

Jointly developing Qianhai New District in Shenzhen into a “Hong Kong/Guangdong modern service industry innovation and co-operation exemplary zone” and striving for the adoption of more early and pilot implementation policies in Qianhai New District

(Items (e) and (s))

12. In accordance with the Overall Development Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in Qianhai Area (Qianhai Development Plan) approved by the State Council in August 2010, Qianhai has been designated as a Hong Kong/Guangdong modern service industry innovation and co-operation exemplary zone. This positioning has also been recognised in the National 12th Five-Year Plan promulgated in March 2011. According to the consensus between the two Governments, the Shenzhen Municipal Government has taken up the leading role and is responsible for the development and management of Qianhai, while the HKSAR Government provides comments on the study and formulation of issues like development planning and the related policies.

13. During his visit to Hong Kong in August 2011, Vice-Premier of the State Council Mr LI Keqiang announced that the Central Government will formulate preferential policies in the areas of finance and taxation, land, and human resources, vigorously develop Qianhai Shenzhen – Hong Kong Modern Service Industry Co-operation Zone, and actively develop innovative finance, modern logistics, information services, scientific and technological services and other specialised services. At the first meeting of the Inter-ministries Joint Conference on the Development of Qianhai Area in Shenzhen, which was convened in Beijing on 27 September 2011, representatives from relevant ministries of the Central Government, Guangdong Provincial Government, Shenzhen Municipal Government and the HKSAR Government reviewed the progress of Qianhai Development Plan since its approval, and conducted in-depth discussions on how to drive the development of Qianhai and enhance its business environment. At the meeting, the Guangdong Provincial Government announced major measures to support the development of Qianhai, including allowing foreign-invested service industry companies established in Qianhai to serve the whole Guangdong Province; supporting early and pilot measures of CEPA in Qianhai, delegating some of the provincial

level approval authorities relating to modern services industries; and supporting the speeding up of the development of the transportation infrastructure to connect Qianhai and its surrounding areas.

14. The HKSAR Government has been consulting the business sectors through various channels. The policy proposals received have been communicated to the relevant Mainland authorities in good time with a view to assisting them in introducing detailed policies to implement the Qianhai Development Plan, including deepening the implementation of CEPA in Qianhai and promulgating other pilot measures to further the development of modern service industries in Qianhai. The HKSAR Government will also continue to participate in the co-ordination mechanism set up under the Qianhai Development Plan to resolve potential problems encountered in developing Qianhai. Moreover, the HKSAR Government will continue to actively complement the publicity and promotional work of the Shenzhen authorities to introduce to Hong Kong enterprises, professional sectors and service suppliers the business opportunities brought about by the development of Qianhai.

Strengthening financial co-operation and innovation between Guangdong and Hong Kong (Item (f))

15. The financial authorities and regulators of both sides have been making every effort to enhance Hong Kong-Guangdong financial co-operation in terms of market, institutes and businesses, with a view to actively responding to the content of the National 12th Five-Year Plan concerning the Central Government's support for Hong Kong to develop into an offshore Renminbi (RMB) business centre and an international asset management centre.

16. In the "Forum on 12th Five-Year Plan and Mainland-Hong Kong Economic, Trade and Financial Co-operation" held on 17 August 2011, Vice Premier Mr LI Keqiang announced a series of measures of the Central Government supporting the social and economic development of Hong Kong. Among all the announced measures, 13 are related to the development of the financial sector.

This shows the Central Government's support for consolidating Hong Kong position as an international financial centre.

17. The 13 measures announced by Vice Premier LI Keqiang will increase the openness of Mainland market, in terms of both scope and quality, to Hong Kong-funded banks and support Hong Kong-funded banks in establishing a reasonable and balanced presence in Guangdong, in the form of "cross-location" sub-branches. By the end of September 2011, four Hong Kong banks had already obtained approval from the Guangdong China Banking Regulatory Commission for setting up 14 sub-branches in the Mainland.

18. The financial authorities and regulators of both sides have been making every effort to implement the financial initiatives laid down in the Framework Agreement on Hong Kong/Guangdong Co-operation (the Framework Agreement) through the Hong Kong/Guangdong Co-operation Joint Conference platform, and taking forward specific policies and measures under the "early and pilot implementation" policy of CEPA and through other channels.

19. As regards the financial market, we have been encouraging Guangdong enterprises to list in Hong Kong. As at end August 2011, there were more than 125 Guangdong enterprises listed in Hong Kong, with a total market capitalisation of over HK\$872.9 billion. The capital raised is around HK\$297.8 billion.

20. As regards mutual establishment of financial institutions, Supplement VI to CEPA has introduced a new measure on the establishment of "cross-location" sub-branches for Hong Kong banks in Guangdong. Applications for the establishment of joint venture securities investment advisory companies are being handled. We are expecting the early establishment of the first joint venture.

21. As at end June 2011, there were 108 business units established in Guangdong by Hong Kong-funded banks. The number of subsidiaries established by Mainland securities dealers in Hong Kong and vice versa continues to increase. As at end

September 2011, there were six securities companies, five fund companies and three futures companies in Guangdong authorised to establish subsidiaries in Hong Kong.

22. We have been fostering the full-fledged development of RMB cross-border trade settlement business between Guangdong and Hong Kong. The RMB trade settlement pilot scheme expanded in June 2010, which further promoted the development of RMB trade settlement in Guangdong. For the first eight months in 2011, the amount of RMB trade settlement conducted through Hong Kong amounted to RMB 1,138.7 billion, more than three times of the whole year amount for RMB 369.2 billion in 2010.

23. Apart from the above, the relevant authorities of Hong Kong and Guangdong had already signed a framework agreement on the issuance of a Lingnan Tong and Octopus two-in-one card at the Hong Kong/Guangdong Co-operation Joint Conference held on 23 August 2011. When the project is launched in 2012, the general public as card holders can use the two-in-one card to pay for public transport and retail purchases in Guangzhou, Foshan, Jiangmen, Zhaoqing, Shanwei, Huizhou and Hong Kong.

24. The HKSAR Government will continue to promote regional economic integration between Guangdong and Hong Kong, enhance communication and co-operation between the financial authorities and regulators of both sides, and take forward policies and measures conducive to the development of both places through various co-operation platforms.

Fortifying Hong Kong's position as an international logistics hub (Item (g))

25. By implementing the Framework Agreement and through other platforms, the HKSAR Government will continue to work with relevant Mainland authorities to explore and take forward initiatives that will enhance cross-boundary logistics efficiency and fortify Hong Kong's position as an international logistics hub. These

initiatives include better enhancement and co-ordination of cross-boundary infrastructure construction, and the continued pursuing of measures that further facilitate customs clearance between Hong Kong and Guangdong.

26. To promote the use of e-logistics by the logistics sector to upgrade cross-boundary operations, the Transport and Housing Bureau has sponsored a study on raising cross-border supply chain visibility under the auspices of the LOGSCOUNCIL, with a view to enhancing the efficiency and reliability of cargo movements between Hong Kong and the Mainland. The study is expected to be completed by the first quarter of 2012.

27. In view of the competitive edges of Hong Kong and the logistics industry's switch to high value-added logistics services, the Transport and Housing Bureau is gradually making available long-term sites in Kwai Tsing for the development of a logistics cluster to facilitate the industry to handle high-value goods and provide high value-added services, especially management solutions for supply chain processes involving Mainland goods and commodities. Meanwhile, the bureau will continue to collaborate with the sector to promote the professional logistics services of Hong Kong in the Mainland and overseas markets.

28. Further enhancement of the airport's handling capacity is conducive to strengthening Hong Kong's role as a regional logistics hub, maintaining Hong Kong's competitiveness and promoting the economic development of Hong Kong in the long run. During the period from 3 June 2011 to 2 September 2011, the Airport Authority Hong Kong (the AA) consulted the public and stakeholders on the two development options set out in its Hong Kong International Airport Master Plan 2030. It is expected that the AA will submit a recommendation on the way forward to the HKSAR Government in late 2011. The HKSAR Government will carefully consider the recommendation, with a view to deciding on the next stage of works, which will include the funding arrangements, detailed engineering design and the statutory environmental impact assessment.

29. To better support the economic development in Southern China, the Transport and Housing Bureau is working with the HKTDC to commission a study on how to further capitalise on the existing strengths of Hong Kong to strengthen our role as a regional distribution centre. The bureau will consult stakeholders and the logistics trade during the course of the study, which was commissioned in late August, with preliminary results expected by end 2011.

Guangdong-Hong Kong-Macao tourism co-operation (Item (h))

30. Guangdong, Hong Kong and Macao are close partners in tourism co-operation. Residents in the three places make frequent visits within the region. In particular, Guangdong Province is Hong Kong's largest source of Mainland visitors. In the first eight months of 2011, 18.29 million Mainland visitors came to Hong Kong, a 23% increase compared to the same period last year. Among them, 72.8% (13.32 million) were from Guangdong Province. In the same period, some 550 000 Macao visitors came to Hong Kong, a year-on-year increase of 10.8%.

31. Guangdong, Hong Kong and Macao maintain close liaison and work together to enhance the overall attractiveness of the Pearl River Delta region as a tourist destination. The key areas of co-operation include joint promotion, development of "multi-destination" tourism products, tapping into overseas markets, promotion of honest and quality tourism, and travel facilitation for visitors.

32. The National 12th Five-Year Plan supports the development of Hong Kong's tourism sector and the deepening of Guangdong-Hong Kong-Macao co-operation. The tourism authorities of the three places will work together to advance tourism co-operation between Guangdong and Hong Kong and Guangdong and Macao under the Framework Agreement, so as to further develop mutually beneficial synergy. The three places have already begun preparatory work on

the Regional Tourism Plan under the Framework Agreement. The Tourism Commission will keep in touch with Guangdong Province and Macao and complement Guangdong's drafting work with a view to completing the Plan by the end of this year.

Introducing tax provisions for cross-border workers and tax concessions for scientific research (Items (i) and (o))

33. The HKSAR Government adopts a simple and low tax regime and offers a level playing field for all businesses and industrial sectors to do business in Hong Kong. As such, any proposal of tax deduction or a financial incentive for an individual industry or company would need to be carefully considered by the HKSAR Government.

34. At present, the HKSAR Government has already allowed the R&D expenditure of enterprises to be fully tax deductible. To encourage more private sector investment in R&D, the HKSAR Government launched the R&D Cash Rebate Scheme (Rebate Scheme) last year. Under the Rebate Scheme, enterprises carrying out applied research projects with the support of the ITF or in partnership with the designated local research institutions will enjoy a cash rebate equivalent to 10% of their R&D investments. The Rebate Scheme offers direct support to the enterprises, and benefits them regardless of whether they are required to pay profit tax. Since the inception of the Rebate Scheme, a total of 310 applications were approved, with a total cash rebate of approximately \$8.3 million.

35. Besides, the HKSAR Government has already provided profits tax deduction for expenditure incurred on research and development by enterprises. According to section 16B of the Inland Revenue Ordinance, if the expenditure for R&D incurred by a Hong Kong enterprise in the Mainland is wholly for its business in Hong Kong, such expenditure is deductible in ascertaining the Hong Kong chargeable profits. The scope of the deductible expenditure on research and development is also very wide.

Establishing a fourth industrial estate (Item (j))

36. With fewer new sites in the Industrial Estates (IEs) and the changing demand of the industry, Hong Kong Science and Technology Parks Corporation (HKSTPC) has implemented a number of measures to optimise the operation of IEs so as to ensure that good use will be made of the IEs sites. HKSTPC is exploring the feasibility of the development of a fourth IE and its mode of operation.

Reviewing and reforming the investment immigration schemes (Item (k))

37. Overseas entrepreneurs can enter Hong Kong by applying to invest, establish business and stay under the General Employment Policy. The Immigration Department will consider whether the applicants can bring economic benefits to Hong Kong, including the number of jobs created, etc. The HKSAR Government will continue to review the entry arrangement from time to time to meet the needs of the overall development of Hong Kong.

38. The Capital Investment Entrant Scheme (the CIES) aims to facilitate the application for entry for residence in Hong Kong by persons who make investment but will not engage in the running of business in Hong Kong. To ensure that the CIES is up-to-date and continues to serve the best overall interest of Hong Kong, the HKSAR Government introduced amendments in October last year, which mainly include temporarily suspending real estate as a class of Permissible Investment Asset in view of public concern on property prices; and raising threshold of investment and personal asset requirement (from \$6.5 million to \$10 million) etc. The HKSAR Government has undertaken to regularly review the effectiveness and operation of the CIES and will accordingly undertake a comprehensive review of the CIES in 2013.

Support and tax concessions for SMEs (Item (l))

39. SMEs are the backbone of Hong Kong's economy. The HKSAR Government always attaches great importance to SMEs and provides necessary support to SMEs through various departments and quasi-government bodies (such as the HKTDC and Hong Kong Productivity Council) by implementing various funding schemes, providing latest market information and business advisory services, and providing infrastructure, design and technical support, so as to enhance their competitiveness.

40. The single profits tax rate currently in place has already reflected the principle of "earning more, paying more". In the year of assessment 2009-10, only 83 000 corporations, accounting for 12% of registered corporations, paid profits tax. Nearly 90% of the corporations do not pay any tax. Majority of the SMEs either do not have to pay any tax or pay a very small amount of tax.

41. The HKSAR Government closely monitors and reviews from time to time the various support measures for SMEs. All relevant factors, including the market situation and the needs of the trade, will be taken into account and timely adjustments will be made so that appropriate assistance can be provided to the trade.

Market access and mutual recognition of professional qualifications (Item (n))

42. The Mainland and Hong Kong have announced about 280 liberalisation measures under CEPA. Hong Kong service suppliers enjoy preferential access in 44 service areas in the Mainland market.

43. In respect of professional services under CEPA, the HKSAR Government has been promoting mutual recognition of professional qualifications and has various preferential and facilitation measures for Hong Kong professional services providers. These measures include opening up the Mainland professional qualification examinations to eligible Hong Kong residents, implementing measures to facilitate registration and practice, lowering the market

access threshold, relaxing the scope of services allowed, and setting up examination centres in Hong Kong or dedicated examination centres in Guangdong Province to make it more convenient for Hong Kong professionals to sit for the relevant Mainland qualification examinations etc.

44. The HKSAR Government attaches great importance to the effective implementation of CEPA. Through close liaison with the Mainland authorities at the central, provincial and municipal levels, the HKSAR Government closely monitors and follows up on implementation issues encountered by the trade in making use of CEPA measures in the Mainland. In order to promote the effective implementation of CEPA measures, relevant bureaux and departments also organise seminars and other promotional activities in collaboration with the Mainland authorities, so that the trade can communicate directly with the Mainland authorities responsible for various service sectors.

45. That apart, the relevant bureaux and departments also keep close liaison with the trade to gather their views on the future development of CEPA. The HKSAR Government will continue to take account of the trade's views in exploring with the Mainland authorities the further development of CEPA.

Helping Hong Kong businessmen on the Mainland enhance their innovation and scientific research capability (Item (p))

46. The HKSAR Government strives to promote the innovation and technology capabilities of Hong Kong through the ITF by providing funding support to enterprises and R&D institutes to carry out applied research projects.

47. The Innovation and Technology Commission and HKSTPC collaborated with the Hong Kong Venture Capital and Private Equity Association to organise meetings and seminars to provide professional advice on financing matters to Hong Kong businesses in the Mainland and other local enterprises.

Ensuring the cross-boundary infrastructures are completed as scheduled (Measure (q))

48. We will continue to take forward the cross-boundary transport infrastructures for more convenient passengers and goods movements in the region. The Hong Kong-Zhuhai-Macao Bridge (HZMB) project is a major cross-boundary transport infrastructure project which has very important strategic value in terms of further enhancement of the economic integration and development between Hong Kong and the Mainland. The commissioning of the project will bring a new era for the transportation connections between Hong Kong, the Mainland and Macao. The HZMB will not only inject impetus to Hong Kong's long-term economic development, but also bring new opportunities to the various key sectors in Hong Kong, including tourism, financial, trade, commercial and logistics industries etc.

49. The works in respect of the HZMB Main Bridge have already commenced by stages since 15 December 2009. The Design and Build Contract for the Immersed Tube Tunnel and Two Artificial Islands for the HZMB Main Bridge, which is the most important contract for the Main Bridge, was signed on 21 December 2010, and the works have commenced in end 2010. In respect of the financial arrangement, the HZMB Authority, under the authorisation of Joint Works Committee of the Three Governments, has finalised the detailed arrangement of the syndicated loan with the lead bank in January 2011. We expect completion of the project in 2016.

50. Regarding the Judicial Review concerning the Environment Impact Assessment Report of the HZMB local projects, the Court of Appeal handed down its judgment on 27 September 2011, unanimously allowing the appeal of the Director of Environmental Protection (DEP) and confirming the validity of the Environmental Permits of the HZMB local projects issued by the DEP. The

Transport and Housing Bureau has immediately resumed the statutory procedures and funding application which were not finished because of the legal proceedings, and has obtained the authorisation of the the Chief Executive in Council to take forward the relevant projects. The bureau will submit funding application to the Finance Committee of the Legislative Council within November 2011. Subject to funding approval, the project will be commenced before the end of this year (i.e. 2011), so as to endeavor the commissioning of the HZMB in 2016 as scheduled.

Enhancing clearance and cross-boundary control services (Item (r))

51. The HKSAR Government has strived to enhance clearance services at the land boundary control points. To boost the handling capacity of the existing cross-boundary control points, improvement works at Man Kam To (MKT) and Lok Ma Chau (LMC) control points are being carried out. The works for MKT has commenced since January 2011 and is expected to be completed in 2012. The number of e-Channels will be increased from 9 to 18. As for LMC control point, the works will start in December 2011 to double the number of e-Channels from the current 20 to over 40 and is expected to be completed by 2013. Moreover, the Government also endeavours to provide efficient clearance service for Mainland visitors. The Immigration Department is planning to expand the e-Channels service to enable registered frequent visitors from the Mainland to use the service. The service at Lo Wu and Lok Ma Chau Spurline control points will be launched in January 2012.

Avoidance of double taxation (Item (t))

52. Arrangement has been made between the Mainland and Hong Kong since 2006 on avoidance of double taxation. The rights of the two sides in deriving tax income from tax payers are clearly delineated with a view to avoiding double taxation on both sides.

53. With regard to the existing 183-day rule which some members of the trade would like to relax, consideration has to be given to the fact that the rule has been effective all along and is able to meet the different criteria of the two sides for avoiding double taxation. There are no strong justifications to make any change at this stage. The HKSAR Government will continue to look into this topic together with the Mainland authorities with reference to the development of our society.

Encouraging Guangdong enterprises to invest in Hong Kong (Item (u))

54. InvestHK has been actively working in collaboration with Guangdong provincial government and relevant authorities to promote the combined advantages offered by Hong Kong and the Greater Pearl River Delta as well as the economic development in the region.

55. In May 2011, InvestHK participated at the “SmartHK” Expo held in Guangzhou, and organised a sector-focused seminar during the “SmartHK” Expo to promote Hong Kong’s advantages as a global financial centre, and how the Guangdong enterprises can leverage on Hong Kong to go global.

56. In late July 2011, InvestHK organised a promotional programme in Shantou to provide the Shantou enterprises with an introduction on how they can make use of Hong Kong’s service industries, in particular brand-building and marketing expertise, in expanding their business. In September 2011, InvestHK organised a seminar in Zhuhai, which aimed at promoting the advantages of Hong Kong as a platform for fund raising for the companies in Zhuhai and its adjacent cities.

57. The Investment Promotion Unit of InvestHK in Guangzhou actively reaches out to companies in Guangdong and maintains close liaison with the relevant government departments and business associations to assist the companies in setting up their business

smoothly in Hong Kong. InvestHK also proactively reaches out to Mainland companies already established in Hong Kong to provide aftercare support services to the Mainland enterprises seeking to expand and upgrade their presence in Hong Kong.

58. InvestHK has been working closely with the Greater Pearl River Delta Business Council – Hong Kong and Guangdong, and jointly organised study missions for the privately owned Guangdong enterprises to help them understand more about setting up and expanding businesses in Hong Kong through investment promotion seminars and visits to Hong Kong’s financial institutions.

59. To facilitate Guangdong enterprises to acquire updated information about setting up their business in Hong Kong, InvestHK and Department of Foreign Trade & Economic Co-operation of Guangdong have jointly developed updated edition on the “Step-by-Step Guide” in Guangdong version on a regular basis. In April 2011, InvestHK launched the latest edition of the guide, which covers the latest procedures of company incorporation and business registration, as well as related information on investing in Hong Kong.

60. InvestHK will continue to carry out various investment promotion activities in Guangdong province to encourage and attract more Guangdong enterprises to invest in Hong Kong, through organising investment promotion seminars, sector-specific seminars, study missions to Hong Kong as well as conducting visits to reach out to targeted Mainland companies.

Improving the co-operation mechanisms to jointly develop a Greater Pearl River Delta metropolitan area (Item (v))

61. Hong Kong and Guangdong signed the Framework Agreement in April 2010. This provides a solid foundation for the two sides to co-operate comprehensively. The Framework Agreement also sets out the important functional positions for Hong Kong/Guangdong co-operation, including a financial co-operation

region with Hong Kong taking the lead, a world-class new economic region, a manufacturing and modern services base, a modern economic circulation sphere, a quality living area and a world-class metropolitan cluster. The dedicated chapter for Hong Kong and Macao in the National 12th Five-Year Plan emphasises the Central Government's support for deepening Hong Kong/Guangdong co-operation and implementing the Framework Agreement; Guangdong to take a pilot and leading role in the opening up of service industries to Hong Kong; and the early implementation of major co-operation projects between Guangdong, Hong Kong and Macao. During his visit to Hong Kong in August, Vice-Premier Mr Li Keqiang also called for the speedy implementation of various initiatives under the Framework Agreement.

62. Since the signing of the Framework Agreement, Hong Kong has been in close liaison with Guangdong to pursue the implementation work actively. The 2011 Work Plan comprises a total of 71 priority items and its implementation progress has been satisfactory, of which the co-operation in finance and commerce has achieved outstanding results. Furthermore, the two sides also signed in August 2011 the Letter of Intent between Hong Kong and Guangzhou on Co-operation in Pushing Forward the Development of Nansha New Area, Co-operation Agreement between Hong Kong and Guangdong on Combating Climate Change, Co-operation Arrangement between Hong Kong and Guangdong on Establishment of a Contingency Notification Mechanism on Critical Disruption of Guangdong-Hong Kong Cross-Boundary Telecommunications Networks, Agreement on Guangdong/Hong Kong Co-operation on Intellectual Property (2011-12), and a Heads of Agreement between GDPASS Payment Network Company Limited and Octopus Cards Limited on Issuance of Two-in-One Card.

63. In conclusion, the HKSAR Government will utilise the set up of the Hong Kong/Guangdong Co-operation Joint Conference and the platform of the Framework Agreement, and continue to liaise closely with Guangdong and build on the opportunities brought about by the National 12th Five-Year Plan, to actively deepen Hong

Kong/Guangdong co-operation, and further capitalise on and complement each other's strengths, with a view to achieving mutually beneficial development.

Constitutional and Mainland Affairs Bureau
November 2011

Annex

Motion on “Promoting regional economic integration between Guangdong and Hong Kong” moved by Hon Andrew LEUNG Kwan-yuen and amended by Dr Hon Samson TAM Wai-ho, Hon WONG Kwok-hing, Hon Miriam LAU Kin-yea and Hon CHAN Kam-lam at the Legislative Council Meeting of Wednesday, 4 May 2011.

That, given that our country’s Twelfth Five-Year Plan proposes to promote joint regional economic development, intensify exchanges and co-operation between the Mainland and Hong Kong, continue to materialize the Framework Agreement on Hong Kong/Guangdong Co-operation, and implement the Mainland and Hong Kong Closer Economic Partnership Arrangement and its seven Supplements; with the construction and completion of cross-boundary transport networks between the two places, the HKSAR Government, while assisting Hong Kong enterprises in going north to open up the Mainland market, must formulate a long-term and sustainable policy to attract more enterprises on the Mainland to establish international headquarters in Hong Kong, facilitate the inflow of Mainland and overseas capital to Hong Kong and create more employment opportunities for Hong Kong; therefore, the HKSAR Government must adopt a forward-looking attitude and formulate policies and measures which are conducive to promoting the development of the two places; in this connection, this Council urges the HKSAR Government:

- (a) to assist Hong Kong businessmen with manufacturing businesses in the Pearl River Delta Region in upgrading and restructuring;
- (b) to set up funds for promoting Hong Kong brand names, products and professional services on the Mainland market, so as to assist local small and medium enterprises in expanding into the Mainland domestic market;
- (c) to provide support to local enterprises for developing small-scale technology industries and commercializing the achievements of

- their scientific research;
- (d) to formulate appropriate policies to help Hong Kong businessmen on the Mainland enhance their innovation and scientific research capability, and assist enterprises in undertaking technological innovation and developing green economy in Guangdong Province;
 - (e) to jointly develop Qianhai New District in Shenzhen into a "Hong Kong/Guangdong modern service industry innovation and co-operation exemplary zone";
 - (f) to strengthen financial co-operation and innovation by fostering on all fronts intensive co-operation between Guangdong and Hong Kong in financial markets, financial institutions and financial businesses, etc.;
 - (g) to jointly promote the formulation of an exchange mechanism for developing the logistics industry, with a view to establishing an international logistics centre and building a modern economic circulation sphere;
 - (h) to expand the scope of Guangdong-Hong Kong-Macao tourism co-operation;
 - (i) to introduce tax provisions for cross-border workers and encourage Hong Kong's talents who are engaged in service industries as well as scientific and technological research to work on the Mainland, so as to support the development of high-end service sectors, manufacturing industries and technologies on the Mainland;
 - (j) to expeditiously conduct studies on establishing a fourth industrial estate and formulate an implementation timetable, with a view to creating better conditions for expanding local industries with competitive edge, so as to dovetail with the Twelfth Five-Year Plan and regional economic integration between Guangdong and Hong Kong, thus creating more new employment opportunities for Hong Kong; and
 - (k) to expeditiously and comprehensively review and reform Hong Kong's schemes for investment immigrants, draw on the successful experience of Singapore or the United States in introducing entrepreneurial investment immigration, enhance the entrepreneurial environment in Hong Kong for increasing

employment opportunities, and formulate a review timetable in this regard,

thereby enabling Hong Kong's professional services to radiate into the entire Guangdong Province, assisting in the rapid development of the high value-added Mainland economy, while at the same time raising Hong Kong's level and enhancing its value-adding, and developing Guangdong and Hong Kong into a world-class urban agglomeration to grasp the new opportunities of the regional economy;

this Council also urges the HKSAR Government:

- (l) to expeditiously review the existing support arrangements and tax concessions;
- (m) to set up funds for the upgrading and restructuring of small and medium enterprises;
- (n) to discuss with the Mainland to further improve the situation of "Big doors are open, but small doors are shut", including further relaxing the threshold of market access and strengthening mutual recognition of professional qualifications, so as to facilitate Hong Kong's small and medium enterprises to expand their business on the Mainland;
- (o) to provide tax concessions for scientific research;
- (p) to provide financing channels and professional advice to help Hong Kong businessmen on the Mainland enhance their innovation and scientific research capability;
- (q) to strive to ensure that cross-boundary infrastructures, including the Hong Kong-Zhuhai-Macao Bridge project, etc., can be completed as scheduled, and avoid incompatibility with Mainland transport networks;
- (r) to streamline the customs clearance procedures of both Guangdong and Hong Kong, and actively conduct studies on establishing additional control points with the co-location of immigration and customs facilities or on adopting additional measures to facilitate immigration and customs clearance, so as to facilitate the smooth and unobstructed two-way flows of

- people and goods;
- (s) to strive for the adoption of more early and pilot implementation policies in Qianhai New District;
 - (t) to avoid double taxation;
 - (u) to encourage Guangdong enterprises to invest in Hong Kong, and use Hong Kong for going global and making overseas investments; and
 - (v) to improve the co-operation mechanisms to jointly develop a Greater Pearl River Delta metropolitan area.