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Panel on Commerce and Industry

Meeting on 18 January 2011

**Updated background brief on
promotion of inward investment**

Purpose

This paper sets out the progress of the performance of Invest Hong Kong (InvestHK) in promoting inward investment and summarizes the views and concerns expressed by the Panel on Commerce and Industry (the Panel).

Background

2. Attracting external direct investment was one of the Government's major initiatives announced in the 2000-2001 Budget Speech to revive Hong Kong's economy after two years of recession following the Asian financial crisis. The establishment of InvestHK in July 2000 provided institutional support to spearhead the work of attracting inward direct investment and the improvement of Hong Kong's investment environment for promoting, in particular, the growth of multinational business activities. InvestHK adopts a targeted approach and promotes nine priority sectors¹ in which Hong Kong has comparative advantages.

3. On 3 June 2003, the Finance Committee (FC) approved the creation of a commitment of \$200 million to enable InvestHK to strengthen its investment promotion efforts over a period of five years from 2003-2004 to 2007-2008. FC further approved on 11 January 2008 an increase of \$100 million of the approved non-recurrent commitment, to be spent over three

¹ These nine priority sectors include business and professional services; consumer, retail and sourcing; financial services; information technology (especially electronic and biotechnology); telecommunications; media and multi-media, technology; tourism and entertainment; and transportation.

years from 2008-2009, to enable InvestHK to continue implementation of the following initiatives-

- (a) broaden the external representation of InvestHK to markets not already included;
- (b) improve coverage in markets where InvestHK is already represented;
- (c) strengthen Investment Promotion Units targeting markets in Beijing/Tianjin and East China;
- (d) increase joint marketing activities with the Pearl River Delta municipalities and strengthen the team responsible for Mainland coordination in InvestHK's Head Office;
- (e) strengthen the sector teams in the Head Office to generate and handle additional projects;
- (f) support the Investment Promotion Ambassador Scheme;
- (g) improve the marketing, research, information technology and knowledge management capacity of InvestHK; and
- (h) meet the additional expenditure on advertising, event sponsorship, office rental and overseas travel, etc arising from these enhanced promotional activities.

The annual financial provision allocated to InvestHK for investment promotion from 2005-2006 to 2010-2011 is as follows:

	2005-2006 (\$ m)	2006-2007 (\$ m)	2007-2008 (\$ m)	2008-2009 (\$ m)	2009-2010 (\$ m)	2010-2011 (\$ m)
Operational expenses	63.7	63.6	65.6	66.5	68.8	79.9
General non-recurrent expenses for enhancing IP work	42.5	42.4	42.5	41.6	42.5	25.8
Total	106.2	106.0	108.1	108.0	111.3	105.8

4. A summary of the results of the work of InvestHK provided by the Administration for the period from 2000 to 2009 is in **Appendix I**.

Discussion at the Panel on Commerce and Industry

5. The Panel has discussed issues on the promotion of inward investment since April 2003, and expressed concern about the cost-effectiveness of the work of InvestHK. Panel members were concerned about the policy on Mainland promotion and the Administration's plan to strengthen the work of InvestHK in the promotion of overseas investment in Hong Kong.

6. At the Panel meeting on 19 January 2010, the Administration briefed members on the work of InvestHK in 2009 and its way forward in 2010. Panel members commended InvestHK for its efforts in promoting inward investment in 2009 which had been a very tough year, and hoped that it would continue to encourage and assist overseas, Mainland and Taiwan companies to set up and expand their operations in Hong Kong.

7. Whilst noting that InvestHK had achieved a record result of completing 265 investment projects in 2009, Panel members considered the 2010 target of completing 270 projects against the background of anticipated global recovery too conservative. The Administration advised that a long lead time spanning up to 36 months was normally required for the completion of a project. With a manpower establishment of about 100 staff, the Administration considered it prudent to set a conservative target for InvestHK in 2010.

8. Some Panel members considered that Hong Kong's aggressive neighbouring economies such as Singapore, Shanghai and Tianjin had caught up within Hong Kong which was gradually losing its competitive edge. These members urged the Administration to conduct a study on the investment promotion strategies of Hong Kong's competitors. Some other members suggested that the Administration should cooperate with overseas investment consultancies in promoting Hong Kong to overseas companies. The Administration should also provide policy incentives, such as concessions on tax or land premium, to encourage these companies to set up their operations in Hong Kong. At the Panel's request, the Administration has provided in August 2010 supplementary information on the breakdown of investment projects completed by InvestHK in 2009 as well as investment incentives provided in Hong Kong compared with some selected economies, details of which are set out in **Appendix II**.

Latest position

9. The Administration will brief the Panel on 18 January 2011 on the work of InvestHK in promoting inward investment in 2010 and the way forward for 2011.

Relevant papers

10. A list of relevant papers is in **Appendix III**.

Council Business Division 1
Legislative Council Secretariat
14 January 2011

Summary of Results of the Work of InvestHK

	<u>2000</u> <u>(Jul–</u> <u>Dec)</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
No. of projects completed*	35	99	117	142	205	232	246	253	257	265
Jobs created within the first year[#]	347	1 504	2 075	2 456	3 008	2 517	3 092	3 130	2 450	2 711
Jobs created/to be created within the first two years[#]	347	1 504	2 075	7 634	7 696	7 924	7 835	8 134	7 881	6 033
Investment amount (\$ million)**	506	3,500	1,360	2,493	4,658	8,895	10,243	8,387	4,608	4,360

* *The figures represent companies assisted by InvestHK, and do not include companies set up in Hong Kong without such assistance.*

[#] *As reported by the companies assisted by InvestHK themselves. Not all are willing to disclose the data.*

For information
August 2010

Legislative Council Panel on Commerce and Industry

**Supplementary Information on Completed Projects
of Invest Hong Kong and Hong Kong's Investment Incentives**

Introduction

This paper provides Members with supplementary information on the breakdown of investment projects completed by Invest Hong Kong (InvestHK) in 2009 as well as investment incentives provided in Hong Kong compared with some selected economies.

Completed Projects of InvestHK

2. In 2009, InvestHK completed a record number of 265 projects, involving direct investment of some \$4.4 billion and the creation of over 6 000 new jobs within the first two years of operation or expansion of the companies.

3. In terms of priority sectors, some 28% of these projects belong to the business and professional services sector (including education and design services) and the technology sector covering renewable energy industry. The consumer, retail and sourcing business as well as projects in industries including environmental technology, wine industry, construction industries as well as food and beverage sector each contributed to 12% of the total completed projects. Geographically, the Asia Pacific region (including the Mainland) and Europe accounted for 43% and 35% of the completed projects in the year respectively. Details of the completed projects by sector and source market are listed below -

**Breakdown of Projects Completed by InvestHK
in 2009 by Sector and Source Market**

I. Breakdown by Sector

Sector	BPS	Tech	*SP	CRS	FS	T&E	Tran	IT	TMM	Total
Number of completed projects	39	35	32	31	30	26	25	24	23	265
Percentage	15%	13%	12%	12%	11%	10%	9%	9%	9%	100%

Sectors

BPS Business and Professional Services

Tech Technology

SP Special Projects

CRS Consumer, Retail and Sourcing

FS Financial Services

T&E Tourism and Entertainment

Tran Transportation

IT Information Technology

TMM Telecommunications, Media and Multi-media

** Completed projects in SP Sector included projects involving environmental technology, wine industry, construction industry, food and beverage sector and industrial products.*

II. Breakdown by Source Market

Source Market	Europe	Asia-Pacific	North America	Mainland of China	Others	Total
Number of completed projects	92	66	48	48	11	265
Percentage	35%	25%	18%	18%	4%	100%

Source Markets

Europe Austria, Belgium, Finland, France, Germany, Ireland, Italy, Liechtenstein, the Netherlands, Portugal, Russia, Spain, Sweden, Switzerland, Turkey and the UK

Asia-Pacific Australia, India, Japan, Kazakhstan, Korea, Singapore and Taiwan

North America Canada and the United States

Others Bermuda, Brazil, Colombia, Iran, Israel, South Africa and the United Arab Emirates.

Comparison of Hong Kong's Investment Incentives with Neighbouring Economies

4. This paper also sets out the investment incentives of Hong Kong and three other neighbouring countries including Singapore, Korea and Malaysia. These three countries are identified for the study because of their similar economic background and development, and their experience in achieving high growth rates in the past decades. Similar to Hong Kong, they are active in attracting foreign direct investments (FDI) for economic benefits and sustained development. Information on the investment incentives of the three neighbouring countries in this paper was acquired through desk top research and may not represent the full picture or the most up-to-date position.

A. Hong Kong

Business Environment Outlook

5. Unlike our neighbouring economies, our investment promotion strategy is to provide adequate support services and infrastructure as well as a level-playing field for all companies and businesses operating in Hong Kong regardless of their origin, instead of giving more favourable treatment to foreign investment or tailor-made special packages for individual foreign investors. Our development as the world's leading business centre and financial hub has been premised on our fundamental strengths and advantages which continue to attract multinational firms to set up in Hong Kong. These include no market entry barrier for foreign investment, the free flow of information and capital, rule of law upheld by an independent judiciary, a simple tax regime with low tax rates, sound economic fundamentals, clean and efficient civil service, excellent infrastructures as well as a rich pool of professionals and highly skilled workforce.

6. The unique position of Hong Kong as a natural gateway to the Mainland has reinforced its status as an ideal location for overseas companies to establish their regional headquarters or offices here for sales, marketing, finance as well as research and development (R&D) functions

and form strategic partnership with Hong Kong entrepreneurs. The city was host to some 6 397 overseas, Mainland and Taiwan companies representing parent companies located outside Hong Kong as at June 2009. Of these companies, 3 580 served as regional headquarters or regional offices. This reflects investors' increasing preference for Hong Kong as a base in the Asia Pacific region from which to oversee their regional operations.

7. Hong Kong has proved its enduring appeal as a world class business city and one of the most competitive economies in various global ranking reports. The city was ranked as the world's freest economy for the sixteenth consecutive year by the Heritage Foundation and the Wall Street Journal in the 2010 Index of Economic Freedom. Hong Kong also retains the highest rating for economic freedom according to the 2009 Annual Report on Economic Freedom of the World by the Fraser Institute.

Investment Incentives and Support Measures

8. Building on Hong Kong's competitive edges, the Government has continued to reinforce its attractiveness to foreign investment through the following three aspects -

- (a) tax regime and incentives;
- (b) sector-specific assistance and support; and
- (c) funding support to enterprises.

(a) Tax Regime and Incentives

9. Hong Kong maintains a simple tax regime with low tax rates, in which only specified types of income, namely business profits, salaries income and property income are taxable. Tax is imposed only on profits / income arising in or derived from Hong Kong. The profits tax rate for corporations is 16.5% and the maximum salaries tax charged is 15% of the net income without allowances. There is no sales tax or GST (Goods and Services Tax) in Hong Kong. The simple tax regime, combined with exceptionally low tax rates, makes Hong Kong an attractive place for overseas and Mainland investors and businessmen.

10. Within the bounds of neutrality and level playing field of our tax system, we are providing tax concessions to all individuals and companies, irrespective of their resident status, which are chargeable to profit tax in Hong Kong. These include:

- (i) Immediate write off allowed for capital expenditure on plant and machinery specially related to manufacturing, and on computer hardware and software.
- (ii) Capital expenditure on refurbishment of business premises allowed to be written off over five years of assessment.
- (iii) Immediate 100% deduction granted for expenditure incurred in research and development, technical education and purchase of patent rights and rights to know-how, subject to certain rules.
- (iv) Profits tax concessions for interest income and trading profits derived from qualifying debt instruments.
- (v) Concessionary profits tax rate for offshore business of reinsurance companies.
- (vi) Exemption from payment of tax on interest derived from any deposit placed in Hong Kong with an authorised institution (not applicable to interest received by or accrued to a financial institution).
- (vii) Exemption from tax for offshore funds in respect of profits derived from transactions in securities, futures contracts, foreign exchange contracts, etc. in Hong Kong, which are carried out by corporations and authorized financial institutions licensed or registered under the Securities and Futures Ordinance. The non-resident entity must not carry on any other business in Hong Kong.
- (viii) With effect from the year of assessment 2008/09, accelerated deduction for capital expenditure on specified environmental protection facilities. For machinery or

plant, 100% deduction will be allowed for the capital expenditure incurred. For installations forming part of a building or structure, 20% deduction will be allowed for each year in five consecutive years.

- (ix) With effect from the year of assessment 2010/11, 100% deduction will be allowed for capital expenditure incurred on specified environment-friendly vehicles.

A comparison of the tax structure between Hong Kong and its neighbouring countries including Singapore, Korea and Malaysia is at [Annex](#).

(b) Sector specific assistance and support

11. The global economic crisis has underscored the need for Hong Kong to diversify its economic base and Government is committed to promoting the six new growth industries¹ where Hong Kong enjoys clear advantages. Government also accords priority to development of higher value-added services and industries as well as knowledge-based professions, financial services and information technology.

(i) Creative Industries

12. The Government has been rendering financial support to promote the development of different sub-sectors of the creative industries, including:

- establishment of the \$300 million CreateSmart Initiative (CSI) to provide targeted support to fund projects that are conducive to the development and promotion of the creative industries;
- establishment of the \$320 million Film Development Fund (FDF) to provide support for the production of small-to-medium budget films and to finance projects which

¹ The six new growth industries are education services, medical services, testing and certification services, environmental industries, innovation and technology and cultural and creative industries

are beneficial to the healthy and long-term development of the film industry;

- establishment of the \$250 million DesignSmart Initiative (DSI) to promote innovation and design; and
- making of a \$100 million non-recurrent allocation to support the operation of the Hong Kong Design Centre for a five-year time span beginning in 2007.

(ii) Wine Industry

13. To help fortify Hong Kong's position as a regional wine trading and distribution hub, the Government has exempted the wine duty in February 2008. We have also been pursuing various supportive measures including customs facilitation, facilitating wine imports from Hong Kong to the Mainland, trade and investment promotion, manpower training and education, launching of a wine storage certification scheme and combating counterfeits. We have strengthened partnership with key wine-producing countries/ regions on wine promotion through signing of cooperation agreements.

(iii) Testing and certification services

14. To increase the competitiveness of the industry to tap business opportunities on the Mainland and overseas, \$20 million has been allocated to support the work of the Hong Kong Council for Testing and Certification. An additional \$21 million will also be allocated to the Hong Kong Accreditation Service to strengthen services for the industry.

(iv) Asset management business

15. To underpin the position of Hong Kong as an international financial centre and building upon its strong asset management foundation while benefiting from a growing Mainland economy, the Government has implemented or announced its intention to put in place the following measures which would strengthen the competitiveness of the industry -

- Starting from 24 February 2010, the case-by-case stamp duty concession for the trading of exchange traded funds (ETFs) with no Hong Kong stock in their portfolios has been extended to cover ETFs that track indices comprising not more than 40 per cent of Hong Kong stocks.
- The Government aims to extend the concessionary profits tax rate at 50 per cent of the normal rate, which is currently applicable to the interest income and trading profits derived from qualifying debt instruments with a maturity period of less than seven years but not less than three years, to cover qualifying debt instruments with a maturity period of less than three years, and clarify the meaning of “issued to the public” under the relevant part of the Inland Revenue Ordinance, in order to better address the evolving market need.
- Offshore funds have been exempted from profits tax since the year of assessment 1996/97. This has brought us on a par with other major financial centres such as New York, London and Singapore. Inland Revenue Department issued further guidelines in February 2010 to clarify the regime and we intend to take measure to facilitate further offshore funds trading in future contracts.
- Estate duty has also been abolished since February 2006 to encourage more local and overseas investors to hold assets in Hong Kong. These measures have helped enhance Hong Kong’s attractiveness and position as an asset management centre.

(v) Innovation and technology

16. Reflecting the importance that Government attaches to innovation and technology development in fostering sustainable economic growth of Hong Kong, an Innovation and Technology Fund (ITF) of five billion was established in 1999 to support projects that contribute to innovation and technology upgrading and development in

local industry. Further, various funding schemes have been established under the ITF to support progress in the realm of research and development.

17. As part of its measures to support continued innovation and technology development, the Government has established various facilities to foster growth of the industry. The Hong Kong Science and Technology Parks Corporation offers one-stop infrastructural support service to cater for the need of technology based industries at various stages, ranging from nurturing technology start-ups, providing premises and services for applied R&D activities, to offering land and premises in the industrial estates for production. To attract more high-tech companies to establish a presence in Hong Kong and to further promote the development of innovation and technology, development of Science Park Phase 3 will be implemented for completion in phases between 2013 and 2016.

18. The Cyberport represents another essential infrastructure reflecting the Government's efforts in attracting a strategic cluster of Information and Communications Technology companies and professionals with a wealth of state-of-the-art facilities and amenities.

(vi) Research and development

19. The Government has also introduced a Research and Development Cash Rebate Scheme in April 2010 under which enterprises conducting applied R&D projects with the support of the ITF, or in partnership with local designated research institutions, will enjoy a cash rebate equivalent to 10% of their investments. These are designed to reinforce the research culture among business enterprises and encourage them to establish stronger partnership with local designated research institutions.

20. International businesses are encouraged to establish R&D facilities in Hong Kong and to use Hong Kong as its regional headquarters. The R&D Centres set up by the Innovation and Technology Commission aim at providing a focal point for driving and coordinating applied R&D work in technology areas including automotive parts and accessory systems, information and

communications technologies, logistics and supply chain management enabling technologies, nanotechnology and advanced materials, textiles and clothing as well as Chinese medicine.

(c) Specific incentives to attract foreign investment

21. As mentioned in paragraph 5, Hong Kong does not provide special treatment to foreign companies. Our policy is to create a business friendly environment for all enterprises to compete on a level-playing ground. Where necessary, support measures will be introduced, e.g. the Small and Medium Enterprises (SME) Loan Guarantee Scheme, Special Loan Guarantee Scheme and SME Export Marketing Fund which assist enterprises in Hong Kong to secure trade finance, expand market and enhance overall competitiveness. These measures are available to all enterprises irrespective of their origin.

B. Singapore

22. Singapore enjoys a stable political system, an open economy, highly educated multi-cultural Singaporean workforce and a sizeable pool of skilled technicians. Singapore pursues a generally proactive encouragement approach and offers a business-friendly operating environment.

Business Environment Outlook

23. The Economic Development Board (EDB) was established in 1961 as a one-stop agency to lead Singapore's industrialization drive through attracting export-oriented FDI to Singapore. Singapore's FDI promotion has always emphasized developing key priority clusters. Government targets at industries such as chemical, electronics, engineering, product development, biomedical research, education and health care services. In the face of regional competition, the Singapore Government has encouraged economic diversification to boost competitiveness. New areas being promoted include medical, financial services and tourism. The Government also aims at attracting skilled migrants and FDI as well as enabling the economy to diversify into service industries.

Investment Incentives and Support Measures

24. Similar to Hong Kong, Singapore's investment incentives and development schemes are targeted on Singapore-based or Singapore registered companies in technology transfer, building up innovation and R&D capabilities as well as moving towards higher value-added business activities. Incentives normally include concessionary corporate tax rates or corporate income tax exemptions. Non-tax incentives include grants for particular high value-added sectors, training and R&D.

(a) Tax regime and incentives

- (i) Income taxes in Singapore consist of corporate income taxes and personal income taxes. Singapore generally imposes tax on a territorial basis where companies are subject to tax on income derived in Singapore and on foreign income received in Singapore regardless of whether the company is resident or non-resident.
- (ii) The corporate tax rate is 17% since 2009-10 which is slightly higher than that of Hong Kong. For personal income tax rate, it is 20% at maximum rate.
- (iii) The Singapore Government imposes a General Sales Tax of 7%, subject to certain exemptions. A withholding tax of 15% on interest income, 20% on director's fee and 10% on royalties is also applied to non-residents including employees, business partners and overseas agents.
- (iv) The Singapore Government has provided tax incentives, concessions or one-off tax rebates to encourage foreign investment and the growth of targeted industries. There are various tax incentive schemes including full or partial exemption on withholding tax, start-up companies tax exemption, preferential corporate tax rates, etc. to encourage manpower development, technological upgrading, R&D and industry development. Incentives normally include concessionary corporate tax rates of 5%

to 15% or corporate income tax exemptions.

(b) Sector-specific assistance and support

(i) Asset management business

25. The Monetary Authority of Singapore (MAS) has set up a unit responsible for promoting Singapore's asset management business by proactively approaches asset managers, hedge funds, regional corporate treasury centres and trusts to encourage them to set up offices in Singapore. The MAS also offers assistance to companies to resolve problems in different stages of the regulatory approval process.

26. The Singapore Government also indirectly invests in both domestic and foreign companies through its investment holding company, Temasek, and the Government of Singapore Investment Corporation (GIC) which manages government funds. These investments aim to support Singapore's economic strategies by targeting key sectors and business activities.

(ii) Innovation and technology

27. To encourage upgrading in equipment and technology, the Government provides tax incentives to non-residents through full or partial exemption on withholding tax on interest payments on loans to purchase productive equipment. To reduce tax liability for equipment which can bring about new technology and enhance efficiency of the industry, a capital allowance is also granted to offset the costs of qualifying equipment within a set period.

28. The Singapore Government has announced new tax deduction incentives recently through the introduction of a "productivity and innovation credit" scheme for five years. Tax deduction will be offered to businesses in all sectors which invest to innovate and upgrade their operations in areas including R&D, design activities, and automation through technology. On the basis of the amount which the company invests in any of the activities covered by the Credit, companies can deduct 250% of their expenditures on each of these activities from their taxable income. A National Productivity Fund will be created to provide

grants to support initiatives of businesses from all sectors for productivity gains and improvements.

29. To encourage technology transfer and development, the Singapore Government provides tax incentive through full or partial exemption on withholding tax for royalty payments or technical assistance fees payable to non-residents for technology or know-how which is more advanced than that prevailing in the industry.

(iii) Research and development

30. Tax incentive and grants are available to R&D projects and activities which can bring in new R&D capabilities and result in increased hiring and training of research scientists and engineers. Partial grants to offset costs resulting from R&D projects are also available. Qualified companies may also reduce the cost-sharing payments for R&D activities which can bring about economic benefits to Singapore, and hence enjoy tax benefits.

31. An additional \$1.5 billion will be injected into the National Research Fund to sustain commitment to public sector R&D. The new Productivity and Innovation Credit scheme will provide incentive for companies engage in R&D by granting a tax deduction of 250% on the first \$300,000 R&D expenditures, and 150% on the remaining R&D cost.

32. Among the Government's support for R&D-related businesses, Singapore Science Park provides modern infrastructure in its three science parks. The Agency for Science, Technology and Research also fosters scientific research through large infrastructure projects for information and media industries and the biomedical sciences.

(c) Specific incentive to attract foreign investment

33. Singapore Government encourages foreign companies to use Singapore as a base through a customised package of tax incentives or grants under the Regional Headquarters Award or International Headquarters Award which are commensurate with the scale and value of the company's proposed headquarters operation in Singapore. On the Regional Headquarters Award, companies meeting certain minimum

requirements in paid-up capital, skilled employment, remuneration level and additional business spending can enjoy concessionary tax rate of 15% for three to five years on incremental qualifying income from abroad. Companies that commit to exceed the minimum requirements of the Regional Headquarters Award may be granted the International Headquarters Award and offered customised incentive packages with lower concessionary tax rates on qualifying income.

C. Korea

34. The Korean current economic policy is to open the Korean market to international competition through trade and FDI. The Korean Government has been active in its efforts to attract foreign direct investment and further improved its business environment since the enactment of the Foreign Investment Promotion Act (FIPA) in 1998 in the wake of the Asian financial crisis.

Business Environment Outlook

35 Korean Government focuses its support on industries including green growth industries and a number of growth engine industries across the economy. The Government has also implemented various measures to develop free economic zones including deregulation on development procedures, construction of infrastructure and land development. Korean Government has placed particular focus on encouraging high technology business and industry support services including manufacturing of computer equipment and parts, broadcast and wireless communication devices, semiconductor equipment and devices as well as software processing and production technology, information processing and computer management technology, e-commerce related technology, etc.

Investment Incentives and Support Measures

36. Unlike the strategy adopted by Hong Kong and Singapore which focus on creating a business facilitating environment in general, Korea has introduced a specific FDI-enhancing policy after the Asia financial crisis to provide foreign companies and industries with potential to

contribute to the economic development of Korea. Their incentives include tax exemptions and reductions, cash grants, granting of industrial sites and assistance in site location and acquisition.

(a) Tax regime and incentive

- (i) Korea imposes a range of taxes for companies and individuals, both on a national and local basis. The corporate tax rate is 13% for taxable income of 100 million won (around HK\$700,000) and less, and 25% for taxable income of 100 million won (around HK\$700,000) or above. Korea also imposes a Valued Added Tax (VAT) of 10%.
- (i) The Korean Government also provides tax incentives for foreign companies in industry support services², high-tech business³, as well as foreign investment in manufacturing, logistics, R&D, leisure and hotel businesses based in the designated foreign investment zones or free economic zones. The Korean Government also provides incentives programmes such as investment tax credits and tax support for small and medium enterprises.

(b) Sector-specific support and assistance

Innovation and technology

37. Korea offers exemption in corporate and personal income taxes for investors providing advanced technology essential for strengthening the global competitiveness of the domestic industry. Tax exemption for five years, from the day when the first payment is made, is applied to Korean domestic corporations as well as foreign companies. Technologies which are essential for advancement of industrial structure

² Industry supporting service business refers to high value-added business which supports the development of other industries and is essential for strengthening the global competitiveness of Korean's industries. Examples are e-commerce related technology, automated management system technology using computers and information processing and computer management technology.

³ High technology business refers to technology with substantial economic and technological benefits to the economy of Korea, including categories like manufacturing of computers and relevant appliances and parts, manufacturing of broadcast and wireless communication devices and semiconductor devices, equipment and parts.

and for strengthening industrial competitiveness and involve processes performed mainly in Korea are eligible for the incentive scheme.

(c) Specific incentives to attract foreign investment

(i) Attraction of FDI through cash grants

38. The Government provides eligible companies in target industries and sectors with cash grants corresponding to 5% or more of their total investment in Korea. To be eligible for the cash grant, a foreign investor must own at least 30% of the equity and invest at least US\$10 million in an industry support service or high-tech business, or in a greenfield investment project in parts and materials manufacturing. R&D laboratories or construction/ expansion projects with significant prospect of job creation are also eligible for the grant programme.

(ii) Incentive to encourage the setting up of regional headquarters

39. The Government has also encouraged foreign companies to locate their regional headquarters in Korea through cash grants. Establishment of the regional headquarters of a multinational corporation or a business pertaining to a regionally strategic industry with potential to contribute significantly to the local economy are eligible for these grants.

(iii) Supply of industrial sites within specially-designated foreign investment zones or free trade / economic zone

40. The Korean Government makes available industrial sites, within specially-designated foreign investment zones, to all foreign firms either free of charge or at low cost, if they meet a minimum set of requirements. Stand-alone type foreign investment zones, more complex foreign investment zones, free trade zones and free economic zones make up the four main categories of the specific investment zones to suit different business needs of companies and attract companies with different business activities. Tax incentives from five to seven years as well as exemption from rent, capital goods tariff and customs duty may be granted.

(iv) Other financial support to foreign investors

41. Financial aid on staff education and the training and hiring of staff, building of infrastructure within a foreign investment zone may be granted to companies with foreign equity stake of at least 30 per cent or in which a foreign company or individual investor is the largest stakeholder.

D. Malaysia

42. Malaysia, strategically located in the heart of South East Asia, offers one of the competitive locations for foreign investors. Malaysia enjoys a politically stable environment, a well-developed legal system and productive workforce. It has become an export-driven economy spurred on by high technology, knowledge-based and capital-intensive industries.

Business Environment Outlook

43. Industries in Malaysia are predominately located in over 200 industrial estates and Free Zones developed throughout the country. Technology advancement has become an integral part of Malaysia's growth as an industrialised country. The technologically-inclined economy is witnessed through the country's involvement in advanced electronics manufacturing, R&D, biotechnology, photonics, logistics, design and innovation. Some 42% of Malaysia's GDP value in 2009 were generated from its industrial sector. The Government also aims to develop Malaysia into a hub for other value chain activities such as R&D, design and development, procurement, logistics, distribution, marketing and business support services.

Investment Incentives and Support Measures

44. FDI has played a central role in Malaysia's economy. Malaysian Government continues to encourage FDI by streamlining its regulatory framework and removing or reducing equity and other restrictions on foreign investment. Malaysia offers investment incentives to different sectors and industries. Major incentives are

highlighted below.

(a) Tax regime and incentive

- (i) There are various tax categories in Malaysia, covering company tax, personal income tax, withholding tax, real property gain tax, sales tax, service tax, import and excise duty. Company tax is 25% while the personal income tax is 27% at maximum rate.

- (ii) Malaysian incorporated companies, whether locally or foreign owned, are eligible for tax incentives if they invest in promoted activities. These tax incentives are given to promote the development of targeted industries and activities, which will contribute to the future growth and development of the Malaysian economy.
 - Pioneer status may be granted to all companies participating in a promoted activity or producing a promoted product covering manufacturing, agricultural, tourism, hotel, R&D, technical and vocational training, etc. A company granted pioneer status enjoys exemption from the payment of income tax for a certain number of years. Companies located in promoted areas may be granted a 100% tax exemption on their statutory income during the exemption period.

 - Companies may also be granted an Investment Tax Allowance (ITA) equivalent to 60% to 100% of their qualifying capital expenditure incurred within five years from the date the first qualifying capital expenditure is incurred.

- (iii) Incentives are also offered to encourage companies to set up their operational headquarters or regional headquarters in Malaysia. An approved operational headquarters is eligible for 100% income tax exemption for a period of 10 years. Expatriates working in regional offices are

taxed only on the portion of their chargeable income attributable to the numbers of days that they are in Malaysia.

(b) Sector-specific support and assistance

(i) Research and development

45. Different incentives are offered to R&D companies and to encourage research and development. R&D companies may be granted a pioneer status with income tax exemption of 100% of the statutory income for five years and an investment tax allowance (ITA) of 100% on the qualifying capital expenditure incurred within 10 years. All expenditure incurred on government approved research, payments made for the use of services of approved research institutes and voluntary cash contributions made to approved research institutes can be deducted twice from taxable profits.

(ii) Manufacturing sector

46. Pioneer status may be granted to companies and related businesses in the sectors with income tax exemption of 100% of the statutory income for a period of five to ten years and Investment Tax Allowance of 60% to 100% on the qualifying capital expenditure incurred, within five years from the date of the first qualifying capital expenditure is incurred. The incentives are applicable to high-tech companies, small and medium scale companies, automotive component modules or systems, strategic projects, equipment for machinery and industry.

(c) Specific incentives to attract foreign investment

(i) Measures to encourage foreign investment in financial services

47. Limitations on foreign investment in financial services has been relaxed since April 2009 with foreign equity cap increased from 49 % to 70% for investment banks, insurance companies and Islamic insurance operators. More operational flexibilities are also given to locally incorporated foreign banks, insurance companies and Islamic insurance operators.

(ii) Measures to promote the services sector

48. Services sector has been identified by Malaysia as a leading growth engine. Restrictions on foreign investment in services have been recently removed or reduced and 100% foreign equity is allowed in 27 services subsectors, covering health and social services, tourism, transport, business services and computer and related services.

(iii) Establishment of Special Economic Zones

49. Malaysia also designated Special Economic Zones to facilitate growth in targeted industries. In August 2009, Malaysia launched its first Special Economic Zone (SEZ) in the East Coast Economic Region with a view to attracting domestic and foreign investments and creating new job opportunities. Four zones are established within the SEZ covering industries like manufacturing, tourism, logistics, information and communications technology, petrochemical.

Hong Kong as an ideal location for investors

50. Hong Kong's status as one of the world's and Asia Pacific's leading destination for FDI has been reaffirmed by the World Investment Report released by the United Nations Conference on Trade and Development (UNCTAD) in July 2010. According to the Report, Hong Kong was the world's fourth largest FDI recipient. In Asia, Hong Kong was the second largest FDI recipient after Mainland China, while Singapore ranked fifth and Korea ranked tenth in this Report. Hong Kong has proven its ability in attracting foreign direct investment, despite the economic downturn and growing competition in the region.

Invest Hong Kong
Commerce and Economic Development Bureau
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Tax Structure of Hong Kong and Other Neighbouring Economies

	Hong Kong	Singapore	Korea	Malaysia
Corporate Tax	16.5% (profits tax rate for corporations)	17% maximum rate	Under 100 million won (about HK\$700,000) profit: 13% Over 100 million won (about HK\$700,000) profit: 25%	For companies with a paid-up capital of less than RM2.5 million (around HK\$ 6 million): first RM500,000 (around HK\$1.2 million) profit: 20%. Subsequent balance: 25% Companies over RM2.5 million (around HK\$6 million) paid-up capital: 25%
Income Tax	15% (standard rate of salaries tax)	20% maximum rate	Progressive: 8% to 35%	Progressive: 0 to 27%
Value Added Tax/ General Sales Tax	Nil	7% (Certain exemptions apply)	10% on goods and services	5% to 10% on goods. 5% on services
Capital Gains Tax	Not Taxable	Not Taxable	9% to 70% on real estate 10% to 30% on stocks	Not Taxable
Non-Taxable Income	Offshore income; dividends; capital gains; interest income from deposits placed with authorised institutions	Certain remitted income; certain shipping income; certain Singapore dividends; prescribed income of foreign investors arising from certain funds; capital gains	Not specified	Capital Gains
Withholding Tax	Nil for dividends, management fees, interest, rent 4.95% for royalties from non-associate and 16.5% (maximum) for royalties from associate.	Nil for dividends 10% for royalties 15% for interest 20% for director's fee	2% to 25%	On Royalty: 10% On Interest: 15% On Contract payments to non-residents: 10% to 13%

List of relevant papers

Committee	Paper	LC Paper No.
Meeting of Panel on Commerce and Industry (CI Panel) on 14 April 2003	Administration's paper : "Briefing on measures to enhance investment promotion" Minutes of meeting	CB(1)1410/02-03(03) CB(1)1823/02-03
Meeting of CI Panel on 8 March 2004	Administration's paper : "Briefing on the work of Invest Hong Kong" Minutes of meeting	CB(1)1191/03-04(03) CB(1)1688/03-04
Meeting of CI Panel on 17 May 2005	Administration's paper : "Promotion of Inward Investment" Background brief on "Work of Invest Hong Kong" Minutes of meeting	CB(1)1496/04-05(05) CB(1)1498/04-05 CB(1)1794/04-05
Meeting of CI Panel on 18 April 2006	Administration's paper : "Promotion of Inward Investment" Minutes of meeting	CB(1)1287/05-06(03) CB(1)1463/05-06
Meeting of the Legislative Council on 23 November 2005)	Motion on "Enhancing economic and trade cooperation between Hong Kong and the Pan-Pearl River Delta region"	Hansard
Meeting of the Legislative Council on 15 November 2006	Motion on "Cooperation between Hong Kong and the Pan-Pearl River Delta region"	Hansard
Meeting of CI Panel on 13 February 2007	Administration's paper : "Promotion of Inward Investment" Minutes of meeting	CB(1)905/06-07(05) CB(1)1089/06-07

Committee	Paper	LC Paper No.
Meeting of CI Panel on 18 December 2007	Administration's paper : "Promotion of Inward Investment"	CB(1)435/07-08(03)
	Background brief on "Promotion of Inward Investment"	CB(1)435/07-08(04)
	Minutes of meeting	CB(1)780/07-08
Meeting of the Finance Committee on 11 January 2008	HEAD 79 - INVEST HONG KONG Subhead 700 General non-recurrent Item 009 Boosting Investment Promotion Work	FCR(2007-08)43
	Minutes of meeting	FC85/07-08
Meeting of CI Panel on 13 January 2009	Administration's paper : "Promotion of Inward Investment"	CB(1)520/08-09(09)
	Updated background brief on "Promotion of Inward Investment"	CB(1)520/08-09(10)
	Minutes of meeting	CB(1)2176/08-09
Meeting of CI Panel on 19 January 2010	Administration's paper : "Promotion of Inward Investment"	CB(1)865/09-10(30)
	Updated background brief on "Promotion of Inward Investment"	CB(1)865/09-10(31)
	Minutes of meeting	CB(1)1570/09-10
	Follow-up paper	CB(1)2768/09-10(01)