For information

Legislative Council Panel on Commerce and Industry

Supplementary Information on Co-work Spaces Operating in Hong Kong and Hong Kong's Investment Incentives on Attracting Foreign Direct Investments

INTRODUCTION

This paper provides Members with supplementary information on the co-work spaces/incubators operating in Hong Kong as well as Hong Kong's investment incentives on attracting foreign direct investments ("FDI") compared with some of our neighbouring economies.

CO-WORK SPACES/ INCUBATORS OPERATING IN HONG KONG

2. There are at present 25 co-work spaces/incubators in 32 locations in Hong Kong providing office accommodation for startups. A list of co-work spaces/incubators operating in Hong Kong is at **Annex I**.

COMPARISON OF INVESTMENT INCENTIVES

Comparison of Hong Kong's investment incentives with those of neighbouring economies

3. The ensuing paragraphs set out the investment incentives of Hong Kong and three neighbouring economies, i.e. Singapore, Korea and Malaysia. Similar to Hong Kong, they are active in attracting FDI for economic benefits and sustained development. Information on the investment incentives of the three neighbouring economies was acquired through desk-top research. While efforts were made to ensure accuracy, the information may not represent the full picture or the most up-to-date position.

A. Hong Kong

Business environment outlook

4. Hong Kong maintains an open, liberal and transparent investment environment, free of market entry barrier for foreign investment. Unlike our neighbouring economies where more favourable treatment is usually given to foreign investment or where tailor-made special packages are offered to foreign investors, our investment promotion strategy is to provide adequate support services and infrastructure as well as a level-playing field for all companies operating in Hong Kong regardless of their country of origin. Our development as the world's leading business centre and global financial hub has been premised on our steadfast commitment to free market principles and our firm positioning as a world city. Our fundamental strengths and advantages, including free flow of information and capital, rule of law upheld by an independent judiciary, a simple tax regime with low tax rates, a rich pool of talent and professionals, a business-friendly environment as well as excellent infrastructures fully connected to the global, regional and Mainland China markets, have continued to attract multinational firms to set up in Hong Kong.

5. The unique position of Hong Kong as a natural gateway to the Mainland has reinforced its status as an ideal location for overseas and Mainland companies to establish their regional headquarters or offices for sales, marketing, finance as well as research and development ("R&D") functions, and to form strategic partnership with Hong Kong entrepreneurs. As at June 2013, the city was host to 7 449 overseas, Mainland and Taiwan companies representing their parent companies. Of these companies, 3 835 served as regional headquarters or regional offices. This underlines investors' confidence in using Hong Kong as a strategic location in Asia to oversee their regional operations.

6. With Hong Kong's position in the heart of Asia and as a two-way business platform between Mainland China and the rest of the world, it continues to be an attractive destination for overseas and Mainland companies. It was ranked as the world's freest economy for the 20th consecutive year by the Heritage Foundation and the Wall Street Journal in the 2014 Index of Economic Freedom, signifying its status and enduring appeal as a world class business city.

Investment incentives and support measures

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

(a) tax regime and incentives;
(b) sector-specific assistance and support; and
(c) specific incentives to attract foreign investment.

(a) Tax regime and incentives

8. Hong Kong maintains a simple tax regime 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 Goods and Services Tax ("GST") in Hong Kong. The simple tax regime, combined with low tax rates, makes Hong Kong an attractive place for international companies and investors.

9. Within the bounds of neutrality and level playing field of our tax system, we provide allowable deductions and tax concessions to all individuals and companies chargeable to profit tax in Hong Kong, irrespective of their resident status. These include, among others -

(i) immediate writing off allowed for capital expenditure on plant and machinery specifically 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) 100% deduction for expenditure incurred on patent rights or rights to any know-how. With effect from the year of assessment 2011/12, 20% deduction on expenditure incurred on copyrights, registered designs or registered trademarks is allowed for five consecutive years starting from the year of purchase;

(iv) deduction for expenditure on R&D including market, management and business research, design-related expenses and payments for technical education, subject to certain rules;

(v) tax concessions for gains derived from qualified debt instruments;

(vi) concessionary tax rate for offshore business of reinsurance companies;

(vii) 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);

(viii) exemption from tax for offshore funds (non-resident individuals, partnerships, trustees of trust estates or corporations) 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 authorised financial institutions licensed or registered under the Securities and Futures Ordinance (Cap. 571). The non-resident entity must not carry on any other business in Hong Kong;

(ix) 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 is allowed for the capital expenditure incurred. For installations forming part of a building or structure, 20% deduction is allowed for each year in five consecutive years; and

(x) with effect from the year of assessment 2010/11, 100% deduction allowed for capital expenditure on specified environment-friendly vehicles.

10. A comparison of the tax structure between Hong Kong and the three neighbouring economies, i.e. Singapore, Korea and Malaysia is at **Annex II**.

(b) Sector-specific assistance and support

11. The intense competition from neighbouring regions and the geopolitical uncertainties in many parts of the world has underscored the need for Hong Kong

to diversify its economic base. The Government is committed to promoting the business sectors and industries where Hong Kong enjoys clear advantages. It also accords priority to developing higher value-added services and industries, knowledge-based professions, innovation and technology as well as financial services. The Government strives to maintain a favourable business environment for enterprises to flourish and has introduced various support measures to address the specific needs of individual sectors and industries.

(i) Innovation and technology industry

- *Promoting R&D*

12. The Government attaches great importance to providing an enabling environment and proper financial support for universities, R&D organisations and industry to conduct research and commercialise their innovations. To foster sustainable economic growth of Hong Kong, the Innovation and Technology Fund ("ITF") has been supporting applied R&D and is constantly being refined to nurture an environment conducive to innovation and technology in Hong Kong. Established 15 years ago, the ITF has provided funding of about $8 billion to more than 3 600 projects. To further boost R&D investments and commercialisation activities among companies at home and attract overseas companies to bring their R&D function to Hong Kong, as well as to create a more diversified ecology for innovation and technology, the Government has introduced two new measures as follows:

➢ setting up an Enterprise Support Scheme ("ESS") which replaced the Small Entrepreneur Research Assistance Programme. The ESS will provide funding support for R&D activities of private sector companies, irrespective of size, with the funding ceiling for each project raised from $6 million to $10 million; and

➢ extending the scope of funding of the ITF to development work and system integration, industrial design, compliance testing and clinical trials, etc., to render stronger support to downstream R&D and commercialisation activities.

13. In addition, the Government introduced a Research and Development Cash Rebate Scheme in April 2010 to reinforce the research culture among business enterprises and encourage R&D investments and projects. Under the Scheme,

enterprises conducting applied R&D projects either with the support of the ITF or in partnership with designated local research institutions will enjoy a cash rebate on their investments. The level of cash rebate has been increased by three-fold from 10% to 30% with effect from 1 February 2012. Further measures, including procedures on pre-registration of partnership projects, have also been introduced from 1 April 2013 to improve the operation of the Scheme.

14. The Hong Kong Science & Technology Parks Corporation's incubation programmes also provide subsidised office spaces, consultancy services, investment matching and financial aid package to support R&D. Following on the success of phase 1 and phase 2 development of the Hong Kong Science Park which have accommodated 440 plus companies, the phase 3 development will provide additional office spaces for some 150 companies. It is expected that construction of phase 3 will be completed in stages from 2014 to 2016.

- *Attracting technology startups*

15. To provide a more favourable environment for the growing number of technology startups in Hong Kong, the Government is committed to creating a better ecological environment for technology startups in collaboration with local R&D institutions and universities. As announced in the 2014-15 Budget, the ITF will provide an annual funding of up to $24 million to six designated universities to provide seed money for R&D projects that they recommend, encouraging their students and teachers to start downstream R&D businesses and commercialise their R&D results. Overseas technology startups are encouraged to collaborate with the designated local institutions in R&D related businesses.

16. To seize the opportunities brought by the rapidly growing startup sector, InvestHK has embarked on its StartmeupHK Campaign in 2013 to attract more innovative and scalable startups to Hong Kong, build the startups ecosystem and promote HK as a global hub for startups and entrepreneurs. The online portal created as part of the initiative provides startups with an information and exchange platform, connecting the startup community in Hong Kong with those from overseas. Meanwhile, the Hong Kong Science and Technology Parks Corporation, Cyberport and Hong Kong Design Centre continue to provide various incubation programmes and support services for startups to help them tide over difficulties encountered in the initial stage of their business.

(ii) Creative industries

17. In recent years, Hong Kong's creative industries have grown at a faster rate than the overall economy, and Hong Kong is fast developing into an international arts hub. The Government has been rendering financial support to promote the development of the sector and hence attract investment through the following measures:

- establishment of the $300 million CreateSmart Initiative ("CSI") to provide financial support for initiatives that are conducive to the development and promotion of the creative industries. An additional $300 million has been injected into the CSI in May 2013 to sustain the Government's support for the development of the sector; and

- 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 are beneficial to the healthy and long-term development of the film industry. The Government is reviewing the FDF in consultation with the Film Development Council and relevant stakeholders to better support the development of the film industry.

(iii) Asset management business

18. Hong Kong's wealth and asset management business has been growing exponentially, ranking top in Asia. As at end of 2012, the assets under management recorded a year-on-year growth of 40%, reaching a record high of $12.6 trillion. To underpin the position of Hong Kong as an international financial centre and building upon its strong asset management foundation, the Government has put in place or has been working towards the implementation of the following measures which would strengthen the competitiveness of the industry -

- since 2010, the Government has extended the stamp duty concession to cover exchange traded funds ("ETFs") that track indices comprising not more than 40 per cent of Hong Kong stocks. The number of ETFs listed in Hong Kong has since increased from 69 at the end of 2010 to 116 at the end of 2013. The daily average turnover of ETFs has also increased from $2.4 billion to $3.7 billion, making Hong Kong one of the largest ETF markets in Asia Pacific region. The Government aims to implement further measures to waive the stamp duty for the trading of all ETFs to help promote the development, management and trading of ETFs in Hong Kong;

- to attract more multinational enterprises to set up their global or regional treasury functions in Hong Kong, the Government has set up a task force in collaboration with the Hong Kong Monetary Authority to review the requirements under the Inland Revenue Ordinance for interest deductions in the taxation of corporate treasury activities; and

- the Government is preparing the relevant legislation to extend the tax exemption for offshore funds to private equity funds to attract them to expand their business in Hong Kong. The Government has also launched consultation on its proposal to introduce an open-ended fund company structure to attract more funds to establish in Hong Kong.

(c) Specific incentives to attract foreign investment

19. The Government pledges to create an environment that is conducive to successful business operations. Our policy is to create a business friendly environment for all enterprises to compete on a level-playing ground. Where necessary, appropriate support measures will be introduced e.g. the Small and Medium Enterprises ("SME") Loan Guarantee Scheme, the SME Export Marketing Fund, the SME Financing Guarantee Scheme, etc., to assist enterprises in securing trade finance and business capital, expand market and enhance overall competitiveness. A Dedicated Fund on Branding, Upgrading and Domestic Sales (the BUD Fund) was also launched in 2012 to assist enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring business operations and promoting domestic sales in the Mainland. All these support measures are available to all enterprises in Hong Kong irrespective of their origin.

B. Singapore

20. Singapore has an open economy and a pool of skilled technicians. It pursues a generally proactive encouragement approach and offers a business-friendly operating environment.

Investment incentives and support measures

21. To attract businesses to invest in Singapore, the Singapore Government keeps its tax rates competitive and takes a holistic approach towards stewardship of key pillars of the economy such as petrochemicals, electronics, biotechnology industries and clean energy. Singapore investment incentives mainly include reduced corporate tax rates or corporate income tax exemptions. Non-tax incentives include grants and allowances for specific industries or business functions. In terms of tax regime, Singapore follows a territorial basis of taxation. Companies and individuals are taxed mainly on Singapore sourced income.

(a) Tax regime and incentives

(i) Income taxes in Singapore consist of corporate income taxes and personal income taxes. For corporate tax, remittance of foreign-sourced dividends, foreign-sourced branch profits and foreign-sourced service income into Singapore are exempt from tax if certain prescribed conditions are met. For individual tax, remittance of all foreign-sourced income is exempt from tax.

(ii) The corporate tax rate is 17% which is slightly higher than that of Hong Kong. For personal income tax rate, it is 20% at maximum rate.

(iii) The Singapore Government also imposes other taxes such as a GST of 7% (subject to certain exemptions), a withholding tax of 15% on interest, 17% on management fees, technical assistance and service fees, as well as a 10% royalty tax for payments to non-residents or non-resident companies.

(iv) The Singapore Government provides tax incentives or exemptions in areas including goods traders and manufacturers, product development and innovation, tourism promotion, establishment of headquarters and startups. Singapore investment incentive schemes include reduced corporate tax rates or corporate income tax exemptions, which seek to attract foreign investment as well as growth and development of targeted industries, R&D capabilities in strategic areas of technology, and businesses conducting high-value activities.

(b) Sector-specific assistance and support

(i) Innovation and technology

22. The Singapore Government has introduced various incentive schemes, mainly in the form of tax deductions, non-taxable cash payout or subsidy, to encourage businesses to invest in innovation and raise productivity.

23. The Singapore Government has introduced in its 2010 budget a "Productivity and Innovation Credit ("PIC") Scheme", running from 2011 to 2015 to encourage business to invest in productivity and innovation. The PIC Scheme provides for 400% tax deductions on up to S$400,000 of qualifying expenditure incurred in six qualifying activities including R&D, design projects, acquisition or leasing of IT and automation equipment, training of employees, acquisition/in-licensing of Intellectual Property Rights ("IPRs") and registration of IPRs. In its 2014 budget, the Singapore Government announced that the PIC Scheme would be extended for three years till 2018 to give business more time to put in place productivity improvements. The Scheme would also be enhanced, particularly that the expenditure cap for each qualifying activity will be combined across the three years. Further, to help firms that are making substantial investments to revamp their businesses, the expenditure cap for each of the qualifying activities will be raised to S$600,000 as from 2015.

24. In lieu of a tax deduction, businesses may also opt to convert up to S$100,000 of the total qualifying expenditure incurred into a non-taxable cash payout across the six qualifying activities.

(ii) R&D sector

25. The Singapore Government provides tax incentives and grants to R&D projects and activities which can bring in new R&D capabilities and economic benefits to Singapore.

26. In 2006, the Singapore Government set aside more than S$13 billion to promote R&D over five years. The National Research Foundation ("NRF") was set up in the same year to develop, coordinate and implement national research and innovation strategies under the national R&D agenda. Together with the Agency for Science, Technology and Research, NRF provides grants

across different research fields. NRF administers grants in areas including biomedical sciences, physical sciences and engineering, interactive and digital media, environmental and water technologies.

27. As for tax incentives, there is a broad-based 50% additional tax deduction on qualifying R&D expenditure. To attract businesses to conduct large-scale R&D projects, there is further tax deduction for R&D activities approved by the Singapore Economic Development Board. As announced in its 2014 Budget, the Singapore Government will extend the two tax measures, with the former for another ten years till 2025, and the latter for another five years till 2020.

28. In addition, several facilities in Singapore, for example the Singapore Science Park, Biopolis and Fusionpolis, provide research and IT space catering for different industries including biomedical sciences, information technology, software development and telecommunications. The Agency for Science, Technology and Research also fosters scientific research, overseeing 18 biomedical sciences, physical sciences and engineering research entities.

(iii) Asset management business

29. Currently, specified income derived from designated investments by a qualifying fund managed in Singapore is exempt from tax in Singapore under various fund incentive schemes such as the Enhanced Tier Fund Incentive Scheme, Resident Fund Exemption Scheme, Offshore Fund Incentive Scheme. To continue promoting its asset management business, Singapore has announced in its 2014 budget the extension of the various fund incentive schemes. Funds that will be managed in Singapore may continue to qualify or seek approval under the relevant fund incentive schemes.

(c) Specific incentives to attract foreign investment

30. The Singapore Government encourages foreign companies to set up business in Singapore through a 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 companies' 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

31. The Korean Government has been active in its efforts to attract FDI and improve its business environment. Korea offers foreign investors various benefits and incentives based on the Foreign Investment Promotion Act ("FIPA") which was enacted in 1998. Under the FIPA, qualified foreign investors will receive investment incentives such as tax breaks, cash grants and land support.

Investment incentives and support measures

32. Korea has introduced a specific FDI-enhancing policy to provide foreign companies and industries, which are considered to have the potential to contribute to the economic development of Korea, with investment incentives including tax exemptions and reductions, cash grants and land support (e.g. provision of free land or leasing land to investors at low prices). There are also other forms of incentives such as employment subsidy and education/training subsidy.

(a) Tax regime and incentives

(i) Korea imposes a range of taxes on companies and individuals, both on a national and local basis. National taxation includes a series of taxes such as corporate tax, surtax, minimum tax, value added tax ("VAT"), excise tax, education tax and security transaction tax. In addition to national taxes, local taxes such as the local income surtax, business place tax, acquisition tax and registration tax may be levied. Korean branches of foreign companies are required to pay a branch tax in addition to the corporate tax if the imposition of a branch tax is allowed under a tax treaty. The taxation of foreign enterprises in Korea is governed by several laws, as well as tax treaties.

(ii) Most of the FDI incentives offered by the Korean Government are in the form of tax support. For foreign investment meeting certain qualifications, corporate tax, income tax and customs duties on capital goods are exempt or reduced in accordance with the Restriction of Special Taxation Act. Acquisition tax, registration tax, and property tax on properties acquired or held for the operation of the business are exempt or reduced under local legislation mandated by the Restriction of Special Taxation Act.

(b) Sector-specific assistance and support

Innovation and technology

33. The Korean Government offers investment incentives to companies meeting specified requirements and engaged in certain high-tech activities or businesses, including information communication technology, liquid crystal display, semiconductor and medical/ biotechnology industry. Such incentives include tax reduction or exemption for 5 to 7 years. Cash grants of not less than 5% of the investment amount may also be provided for companies that hold high-end technology.

(c) Specific incentives to attract foreign investment

(i) Attracting FDI through cash grants

34. The Korean Government also provides foreign businesses with cash grants. To be eligible for the cash grants, the business of a foreign company should have over 30% of foreign investment. Factors that would be considered before making such grants include, for example, whether the relevant foreign business accompanies high technology, whether the foreign business is essential for strengthening the national competitiveness, the effect of technology transfer, the size of job creation, whether the foreign company engages in business already practised by domestic companies, as well as the propriety of the location in which the foreign investment is made.

(ii) Incentives to attract regional headquarters

35. Korea also announced its plan in 2013 to introduce an “Asia Regional Headquarters Programme”. Under the initiative, companies that set up a regional headquarters in Korea may apply for a comprehensive package including cash grants from the Korean Government.

(iii) Land support

36. The Korean Government offers land support to foreign companies located in the foreign investment zones, free economic zones, free trade zones as well as special industrial complexes which are developed strategically and designated for industrial development. Such support include long term lease of land, tax exemptions and deductions (both national and local tax), exemption of customs duty, financial support for site rental, and subsidy for land price. Foreign companies operated in the above-mentioned zones and complexes may also receive support for education and training, employment subsidy as well as exemption of VAT.

37. In addition, a foreign company can lease land, factories or other property owned by the Korean Government. In the case of a land lease, the foreign company may be exempt from lease payments if certain conditions are met. Foreign companies may also construct a plant or other facilities on the land provided that the plant or other facilities are donated to the Korean Government or the land is restored to its original state before the lease is terminated.

D. Malaysia

38. Malaysia, strategically located in the heart of South East Asia, presents itself as one of the competitive locations for foreign investors. The Malaysian Government has made it clear that in order to leverage on new opportunities in the changing global landscape, it would promote investment in key strategic sectors to ensure it is positioned strategically to take advantage of opportunities in new export markets and global supply chain.

Investment incentives and support measures

39. The Malaysian Government encourages FDI by offering investment incentives to different sectors and industries. The main incentives include tax incentives as well as incentives for high technology industries, strategic projects and the set-up of international/regional service-based operations.

(a) Tax regime and incentives

(i) There are various tax categories in Malaysia. Apart from income tax, there are other direct taxes such as stamp duty and real property gains tax and indirect taxes such as sales tax, service tax, excise duty, import duty and export duty. The corporate tax rate is currently 25% while the maximum individual income tax rate is 26%.

(ii) The income of any person (including a company) accrued in or derived from Malaysia, or received in Malaysia from outside Malaysia, is subject to income tax. However, income derived from sources outside Malaysia but received in Malaysia by any person, other than a resident company carrying on business of banking, insurance or sea or air transport, is exempt from tax.

(iii) Tax incentives in Malaysia, both direct and indirect, are provided for in the Promotion of Investments Act 1986, Income Tax Act 1967, Customs Act 1967, Sales Tax Act 1972, Excise Act 1976 and Free Zones Act 1990. These Acts cover investments in the manufacturing sector, agricultural sector, tourism sector (including hotel) and approved services sectors, as well as high technology projects, R&D activities, and training and environmental protection activities. The direct tax incentives involve partial or total relief from income tax payment for a specified period, while the indirect tax incentives are in the form of exemptions from import duty, sales tax and excise duty.

(iv) Malaysian incorporated companies are eligible for tax incentives if they invest in promoted activities and industries. The major tax incentives are those granted to companies attaining the "Pioneer Status" and the Investment Tax Allowance ("ITA"). Eligibility for Pioneer Status and ITA is based on certain criteria, including the level of value-added, technology used and industrial linkages.

- Pioneer Status may be granted to all companies participating in a promoted activity or producing a promoted product involving investments in sectors/ activities such as manufacturing, agricultural production, tourism, hotel, R&D, etc. A company granted Pioneer Status enjoys tax exemption of 70% to 100% of its statutory income for five to ten years, depending on the sectors involved, with the exemption period commencing from the production day (defined as the day when the production level of the company reaches 30% of its capacity).

- As an alternative to Pioneer Status, a company may apply for ITA. A company succeeded in its application is entitled to an allowance on its qualifying capital expenditure (i.e. factory, plant, machinery or other equipment used for the approved project) incurred within five to ten years from the date the first qualifying capital expenditure is incurred.

(b) Sector-specific assistance and support

(i) Manufacturing sector

40. Malaysia offers different tax incentives for companies in the manufacturing sector and engaged in related activities. Apart from Pioneer Status and ITA, reinvestment allowance may also be given to existing companies engaged in manufacturing activities that reinvest for the purposes of expansion, automation, modernisation or diversification of its existing business into any related products within the same industry. The incentives are applicable to high-technology companies, small and medium scale companies, strategic projects, automotive industry as well as machinery and equipment industry.

41. A high technology company engaged in promoted activities or in the production of promoted products in areas of new emerging technologies, such as biotechnology, advanced electronics and computing products or systems as well as professional, medical, scientific and measuring devices or parts, may be eligible for income tax exemption of 100% of statutory income for a period of five years or an allowance of 60% of qualifying capital expenditure incurred within a 5-year period.

(ii) Services sector

42. Services sector has been identified by Malaysia as a growth engine to propel and sustain its economy. Services sector assumes an increasing share of Malaysia's Gross Domestic Product as its economy matures. Malaysia has been working to attract industries having strong foundations for new growth such as education and training services, high value tourism activities, green technology, financial services, R&D and design activities. The major incentives for

companies investing in the services sector are those under the Pioneer Status scheme and the ITA.

(iii) R&D sector

43. Increasing the country's capability in the development of science, technology and innovation through R&D programmes has been recognized by Malaysia as an important way to generate new sources of economic growth. The Malaysian Government offers incentives and financial assistance to attract investments in R&D activities, such as industrial design (product and process development covering designing and prototyping), and research services provided by design houses, contract R&D companies, R&D companies, approved R&D institutes/research companies, etc. Major incentives include tax exemption of 100% of statutory income for five years for companies attaining the Pioneer Status or an ITA of 50% to 100% on the qualifying capital expenditure incurred within 10 years. Incentives are also provided for R&D companies or related activities for reinvestments. Subject to conditions, a Pioneer Status may be extended for another five years, while an ITA for another 10 years.

(c) Specific incentives to attract foreign investment

(i) Incentives to attract global /regional headquarters

44. Incentives are offered to encourage companies to set up their operational headquarters ("OHQ") in Malaysia. An OHQ generally refers to a set-up of a company that provides support services to its offices or related companies regionally and globally. An approved OHQ is eligible for income tax exemption for a period of 10 years. Expatriates working in the OHQ of a company are taxed only on the portion of their chargeable income attributable to the number of days that they are in Malaysia.

(ii) Establishment of FIZs and specialised parks

45. Malaysia also designates FIZs, which are export processing zones to cater for the needs of export-oriented industries. Companies in FIZs are allowed duty free imports of raw materials, components, parts, machinery and equipment directly required in the manufacturing process. Specialised parks have also been developed in Malaysia to cater for the needs of specific industries such as technology-intensive industries and R&D activities.

HONG KONG AS AN IDEAL BUSINESS LOCATION FOR INVESTORS

46. Hong Kong continues to be an attractive business destination for companies to base their operations in Asia. According to the World Investment Report released by the United Nations Conference on Trade and Development in June 2014, Hong Kong was the world's fourth largest FDI recipient in 2013. In Asia, Hong Kong was the second largest FDI recipient after Mainland China, while Singapore ranked third, Malaysia ranked eighth and Korea ranked ninth in the same report. Despite the growing competition in the region, Hong Kong has proven its ability in attracting FDI and demonstrated its appeal as a strategic location in Asia for companies to oversee their global or regional operations.

Invest Hong Kong
Commerce and Economic Development Bureau
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Annex I

List of Co-work Spaces and Incubators in Hong Kong

1. Co-work Spaces in Hong Kong

Name		Location(s)
1.	80/80 Space	Kwun Tong
2.	Cocoon	Tin Hau
3.	Cowork CHM	Cheung Sha Wan
4.	Dim Sum Labs	Sheung Wan
5.	Fill in the Blank	Aberdeen
6.	HK Commons *(2 locations)*	Cheung Sha Wan and Sheung Wan
7.	Incu-Lab	Tin Hau
8.	Innovation Lab	Kennedy Town
9.	LOffice IncuCenter	Tsuen Wan
10.	Paperclip	Sheung Wan
11.	Partner	Wanchai
12.	Platform	Sai Ying Pun
13.	Retro.Spot	Quarry Bay
14.	Smart-Space Cyberport	Pok Fu Lam
15.	Startup Commune	Fo Tan
16.	The Collab *(2 locations)*	Wan Chai and Sheung Wan
17.	The Crafties	Sheung Wan
18.	The Garage Society	Central
19.	The Good Lab *(2 locations)*	Mong Kok and Cheung Sha Wan
20.	The Hive *(3 locations)*	Wan Chai, Sai Kung and Kennedy Town
21.	The Loft	San Po Kong
22.	The Workground *(2 locations)*	Central and Causeway Bay
23.	WYND	Central

2. Incubators in Hong Kong

Name		Location(s)
1.	Cyberport*	Pok Fu Lam
2.	Hong Kong Science Park	Pak Shek Kok
3.	Nest	Sheung Wan

* The Cyberport provides both co-work spaces (known as "Smart-Space") and incubation services for startups.

Annex II

Tax Structures of Hong Kong and Other Neighbouring Economies

	Hong Kong	Singapore	Korea	Malaysia
Corporate Tax	16.5%	17%	• 11% up to 200 million Korean Won • 22% over 200 million to 20 billion Korean Won • 24.2% over 20 billion Korean Won (All including a surtax of 10% of the corporate income tax due)	• Companies with paid-up capital of not more than RM2.5 million: - first RM500,000 income: 20%. - subsequent balance: 25% • Companies with paid-up capital of more than RM2.5 million: 25%
Income Tax	Progressive: 2% to 17% on net chargeable income, or 15% on net income without allowances (whichever results in a lower tax amount)	• Residents: progressive, 0% to 20% on chargeable income • Non-residents (Employment income): 15% or resident rate, whichever is higher • Non-residents (Director's fees, consultation fees & all other income): 20%	Progressive: 6.6% to 41.8% (10% surtax included)	• Residents: progressive, 0% to 26% on chargeable income • Non-residents (business, trade or profession; employment; dividends; rents): 26% • Non-residents (public entertainer, interest): 15% • Non-residents (royalty; payments for services in connection with the use of property or installation, operation of any plant or machinery purchased from a non-resident; payments for technical advice, assistance or services rendered in connection with technical management or

	Hong Kong	Singapore	Korea	Malaysia
				administration of any scientific, industrial or commercial undertaking, venture, project or scheme; rent or other payments for the use of any movable property): 10%
Sales Tax/ VAT/GST	Nil	7%	10%	• 5% to 10% on goods • 6% on services
Capital Gains	Not Taxable	Not Taxable	Taxed from 6% to 70% on real estate 11% to 33% on stocks (10% surtax included)	Taxed from 15% to 30% on capital gains derived from the disposal of real property or on the alienation of shares in a real property company
Non-taxable Income	Offshore profits, capital gains, dividends, and most Hong Kong bank deposit interest income are exempt from tax	• Capital gains (e.g. on sale of fixed assets, on foreign exchange on capital transactions); • shipping income derived by a shipping company; • foreign-sourced dividends, branch profits and service income received by qualifying resident company	Income derived from property of public welfare trusts	Foreign-source income (unless the corporation is carrying on a business in the banking, insurance, air transport or shipping sectors), dividends paid by companies using the single tier system

	Hong Kong	Singapore	Korea	Malaysia
Withholding Tax	• Nil for dividends, interest or any other income • 4.95% for royalties paid to non-associate 16.5% for royalties paid to associate	• Nil for dividends • 10% for royalties • 15% for interest • Prevailing corporate tax rate (i.e. 17%) for management fees	22% for dividends, interest, royalties, and miscellaneous income (10% surtax included)	• Nil for dividends • 10% for royalties • 15% for interest • 10% for technical service fees