



# *Environment of Business in Hong Kong and PRC*

*ACY 0210F*

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## 1. Introduction

This project aims to study the current Hong Kong and China general business environment and specifically the environment of the banking, logistics and tourism industries. Among all aspects, legal, political and economic areas are the main focus of this study.

By looking into these different aspects of Hong Kong's and China's business environment, a better understanding of the current situation could be developed.

The three chosen industries are pillar industries of the two places. In-depth study of these industries could be seen as specific examples of the business environment of the two places.

## 2. Hong Kong Business Environment

### 1. Legal

#### i. Tax system

Hong Kong has simple and low tax, with no value-added tax (VAT) and capital gain tax (Inland Revenue Department, (*IRD*)). Taxes related to business are listed in *Appendix I*. Hong Kong imposes one of the lowest tax rates in the world. It further lowers the standard tax rate by 1% to stimulate investment (2008-09 Budget - Tax Concessions).

#### ii. Business registration

Business requires to be registered include:<sup>1</sup>

A. new business carried on by an individual or a partnership

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<sup>1</sup> Business registrations: <http://www.ird.gov.hk/eng/tax/bre.htm>

- B. new business carried on by a limited company
- C. opening a branch
- D. recommencement of a business
- E. annual renewal for established companies

All of the above need to obtain a business certificate for operation and the annual fee is waived in 08/09 to benefit all companies (Revenue (Reduction of Business Registration Fees) Order 2008).<sup>2</sup> The registration through counter (with completed application form and supportive documents) takes only 30 minutes. Or, it takes 2 working days when registration is done by post.

iii. Legal system

Hong Kong has a sound legal system. Its well established legal structure is the source of investors' confidence in its law enforcement. *Appendix III* shows Hong Kong's legal structure.

The establishment of Independent Commission Against Corruption (ICAC) in 1974 is a milestone for Hong Kong to become one of the best corruption-free economies in the world.

Business environment free of corruption ensures companies can operate freely without any corruption concern. Companies can pursue their business interests as bribery is not tolerated.

iv. Competition law

The Hong Kong government published a consultation paper on the competition law in the

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<sup>2</sup> Please refer to *Appendix II*.

2008/09 policy address. The proposed cross-sector competition law aims to reinforce Hong Kong's image as a free trade economy in light of concerns about the possible anti-competitive conduct (2008-09 Policy Address).

## 2. Political

### i. Free trade policy

Hong Kong maintains a free trade policy which imposes no trade barriers (i.e. no tariff and quotas), no restriction on investment incoming or outgoing, no foreign exchange control and no nationality restriction on corporate ownership. The policy shapes Hong Kong as one of the most business-friendly places (HKETO).

### ii. Human capital development

Hong Kong government puts forward policies to develop human capital. Policies include free senior education extended from 9 to 12 years, small class teaching implementation, education reform and provision of continuing education fund. All helps to turn Hong Kong into a more knowledge-oriented society (The 2008-09 Budget).

## 3. Economic

### i. GDP

GDP is reflects a place's financial status. Hong Kong's GDP maintains a rising trend throughout the years.<sup>3</sup> The overall trend of Hong Kong's GDP shows an improving economy condition, which offers investors numerous business opportunities.

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<sup>3</sup> Please refer to *Appendix IV*.

ii. Wage index

Wage is an unavoidable cost in every industry. Wage index demonstrates the cost of business.

The higher the cost, the less attractive the business environment is. There is an overall increase in cost over the years in Hong Kong.<sup>4</sup>

Moreover, Hong Kong government has launched Wage Protection Movement for cleaning workers and security guards since 2006 (Labour Department).<sup>5</sup> The act reflects the likelihood of the legislation of minimum wage law. Cost will inevitably further rise if it is established.

iii. Financial market

Hong Kong's financial market is famous for its openness, transparency and efficiency. Investors enjoy free trading in the stock market. The ease of capital-raising in its stock market makes Hong Kong the investors' choice of initial public offering (IPO).

iv. Current actions against financial crisis

The Hong Kong government launched programmes to act against the worldwide financial crisis, for example 100% Deposit Protection Scheme (Hong Kong Monetary Authority)<sup>6</sup> and upgrade of credit of SME Loan Guarantee Scheme effective from November 6, 2008.<sup>7</sup> This reflects its willingness to help companies to encounter foreseeable problems.

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<sup>4</sup> Please refer to *Appendix V*.

<sup>5</sup> The Movement has come to a close starting from 15 October 2008, and the Government will honour its pledge to proceed with the legislative work for introduction of a statutory minimum wage.

<sup>6</sup> The scheme will be valid until 2010. For details, please see *Appendix VI*.

<sup>7</sup> news.gov.hk

<http://www3.news.gov.hk/isd/ebulletin/en/category/businessandfinance/081103/html/081103en03004.htm>

### 3. PRC Business Environment

#### 1. Legal

China's legal system had been criticized to be not comprehensive. In recent years, there is substantial improvement.

##### i. "Minimum Wage Law" (2004.4.1)

Different provinces have different level of wage rate regardless of occupation. For example, Guangdong Province had the minimum monthly wage of \$690 in 2005 (Wikipedia).

##### ii. "Company Law" (2006.1.1)

Company Law releases the capital requirement for limited company and listed company.<sup>8</sup>

Partial Payment is allowed to fasten the development of medium and large size companies.

We expected that more symbolic companies will come into being.

##### iii. "Property Law" (2007.10.1)

A statement that makes private property equals public property deserves public attention. It makes land acquisition easier and favors economic development. It also makes the economic system change gradually from socialism to capitalism.

Moreover, new law allows assets like accounts receivable and inventory used as collateral and thus facilitates company expansion.

##### iv. Tax System

China has a complicated tax system. Taxes are collected both on province basis and country

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<sup>8</sup> Please refer to *Appendix VII*.

basis. The detail is listed in *Appendix VIII*.

## 2. Political

Chinese government control and involvement in the business environment is relatively intensive. Some measures help economic development while some hinder.

Positive:

Chinese government acts as a planner and provides goals for different industries and provinces. The announcement of “Eleven-Five” Plan in 2007 in the NPCSC is a good example of long-term planning. It had clear direction on various areas like resource allocation, infrastructure and production development.<sup>9</sup> It stresses the importance of advanced technology. The government will also concentrate on developing several potential places. All these ensure steady growth of China’s economy in the coming years.

Negative:

Active government intervention may on the other hand lead to resource misallocation as government may respond to public demands. During Beijing Olympics 2008, government ordered the heavy industries near Beijing to reduce or even stop their production for at least 2 months<sup>10</sup> just to give Olympics a blue sky. This will serious affect the investors’ confidence as the government will sacrifice them for political reasons.

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<sup>9</sup> 中國國民經濟和社會發展“十一五”規劃綱要(全文) 中國新聞網  
<http://www.cns.hk:89//news/2006/2006-03-16/8/704064.shtml>

<sup>10</sup> 150 多家重污染企業做好奧運期間停產準備 中國評論新聞  
<http://www.tourtw.com/doc/1006/9/6/2/100696246.html?coluid=7&kindid=0&docid=100696246>



### 3. Economic<sup>11</sup>

Chinese economic performance has an astonishing improvement these years.

- PRC's GDP has attained a steady growth rate above 8% since 2001

Investment accounts for the highest proportion of around 42%. Besides, Guangdong province has the highest GDP contribution.

- Foreign investment has a rapid growth since it became the member of WTO in 2001.<sup>12</sup> and established CEPA in 2003.<sup>10</sup> Tax concession to overseas and Hong Kong goods attracts trades.
- Cooperation between Chinese and foreign firms has intensified. The sound and improving economic environment encourage foreign investment there.

## 4. In-depth Case Studies

In the following section, the business environment of banking, logistics and tourism industry in both Hong Kong and PRC will be investigated.

### 1. *Banking Industry*

#### Hong Kong

##### **Background Information**

Hong Kong has a three-tier banking system: licensed banks, restricted licensed banks and deposit-taking companies (DTCs). Also, Hong Kong Monetary Authority (HKMA) is the

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<sup>11</sup> Please refer to *Appendix IX*.

government authority specifically set up to maintain its stability.

### **Performance**

Hong Kong's banking industry contributed to 10% GDP at factor cost in 2006, totaled \$136.5 billion of GDP value-added (Census and Statistics Department). Most banks are high in foreign ownership and low in state ownership.<sup>12</sup> Therefore, they are efficient with operating costs to total assets lower than 1% and sound with excellent capital adequacy of 15% and merely 2 % of non-performing loans (NPLs) (World Bank).<sup>13</sup>

### **Legal environment**

Due to the liquidity problem of banks in development stage, Banking Ordinance and Deposit-Taking Act were issued as a legal framework for regulating and licensing of banks and DTCs.

### **Political environment**

Hong Kong banking system operates in a free economy, thus it is market oriented. HKMA remains involved mainly in customer protection to prevent financial problem of a single bank injuring stability of the whole system. For example, 100% Deposit Protection Scheme is implemented in light of the current financial crisis.

### **Economic environment**

The industry has high market transparency and disclosure. Moreover, the government

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<sup>12</sup> Please refer to *Appendix X*.

<sup>13</sup> Please refer to *Appendix XI*.

implements Deposit Protection Scheme to attract deposits in smaller banks.

### **Special issues**

Under CEPA, barriers for Hong Kong banks entering the mainland market are lowered. For example, total assets requirement to set up branch in the PRC is lowered from US\$20 billion to US\$6 billion (Hong Kong Trade Development Council).

Number of banks in Hong Kong has diminished from 361 in 1997 to only 208 in 2004 (World Bank). The phenomenon is due to a consolidation trend among banks like DBS Bank to gain more revenue and reduce costs.

Hong Kong banking system is suggested to change from 3-tiers to 2-tiers since the original rationale supporting the current structure does not exist anymore.<sup>14</sup>

### **The PRC**

#### **Background Information**

After economic reform in 1970s, People's Bank of China (PBC) acts as the central bank with 4 state specialized banks handling the commercial banking business.<sup>15</sup> Most banks have high state ownership of 89.3% while only 3.2% foreign ownership (World Bank).

#### **Performance**

Its operating costs to total assets and NPLs are declining while capital adequacy ratio finally reaches international standard of 8% in 2007 (World Bank & CBRC).<sup>16</sup> These figures show

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<sup>14</sup> Mr David Carse, 2008 'Review of the HKMA's Work on Banking Stability'

<sup>15</sup> Please refer to *Appendix XII*.

<sup>16</sup> Please refer to *Appendix XIII*.

more focus is put on risk management and asset quality.

### **Legal environment**

China Banking Regulatory Commission (CBRC) was set up to supervise the bank performance and put forward continuous banking reform.

### **Political environment**

The PBC governor is appointed by the government. This is one of the indicators showing that it has low political independence.<sup>17</sup> Furthermore, there is huge party control over Big4 state banks.

### **Economic environment**

There are more co-operations between foreign and Chinese banks after WTO entry of The PRC. Yet, Renminbi remains as a regional currency only.

### **Special Issues**

The state banks are undergoing structural reform and recapitalization. Some even list their stock in stock exchange of Hong Kong and Shanghai.

### **Summary**

It is forecasted that, with CEPA and consolidation, Hong Kong banking industry will remain its current competitiveness and position. According to the Top 1000 World banks, 2 PRC state banks are the top 10 world banks. With WTO and bank reform, PRC banking industry will catch up with Hong Kong's progress in near future.

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<sup>17</sup> Yuen Yin Chan 'The Banking System of Hong Kong: Perspectives on Changes and Development', P.68,69

## 2. Logistics Industry

### Hong Kong

#### **Performance**

Logistics industry is one of the pillars of Hong Kong's new economy. It speeds up the product-to-market cycle and supports retail business. Logistics industry contributes to 5.5% of Hong Kong's GDP and 6% of total employment (LOGSCOUNCIL, 2007).<sup>18</sup>

#### **Legal environment**

Hong Kong has a strong legal system. The legal framework is transparent and clear. There is also a judicial system, which operates independently from the executive and legislative branches. These give confidence to foreign logistics companies to invest in Hong Kong.

#### **Political environment**

CEPA provides Hong Kong's logistics companies with priority access to the PRC's booming market. Hong Kong companies can set up wholly-owned enterprises in the PRC. With their Hong Kong Service Supplier Certificate, they can obtain extra benefits under CEPA.

#### **Economic environment**

Hong Kong is one of the freest economies in the world. There is no restriction, exceptions, quota or tariff. This provides an ideal place for logistic industry development. Hong Kong also has world-class logistics facilities. The container port handled 23.5 million TEUs and the Hong Kong international airport handled 3.58 million tones cargo in 2006 (LOGSCOUNCIL, 2007).

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<sup>18</sup> Please refer to *Appendix XIV*.

## **Challenges of Hong Kong Logistics Industries**

First, there is a high operation cost restriction. Using airport and port facilities is very costly.

Moreover, Hong Kong faces fierce competition from Shanghai, Shenzhen. The road logistics is already saturated from the declining figures of cross-boundary road cargo throughput from 40.5 million tones in 2004 to 37.8 million tones in 2006 (LOGSCOUNCIL, 2007).<sup>19</sup>

To tackle the challenges, logistics skills and IT technology has to be upgraded. New system such as RFID, DTTN and OBTIS is applied to facilitate the effectiveness and efficiency in logistics operation.<sup>20</sup>

## **The PRC**

### **Performance**

Logistics industry counts for 18% of GDP of the PRC<sup>21</sup>, which is a huge proportion (EIU, ARC Advisory, CLSA). It reached RMB 3.8 trillion in 2006 and keeps on growing by 13.5% per year (KPMG, 2008). Transportation accounts for most of the logistics costs and logistics category is mainly industrial products.

### **Legal environment**

The PRC has introduced the new Corporate Income Tax (CPI) Law. It has leveled the playing fields between domestic and foreign companies. It has removed many policies that are beneficial particularly to foreign companies.

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<sup>19</sup> Please refer to *Appendix XV*.

<sup>20</sup> Hong Kong Logistics Development Council, 2007, 'The Hong Kong Logistics Development Council Report', p.8-10

<sup>21</sup> Please refer to *Appendix XVI*.

**Political environment**

The government has removed lots of regulatory constraints. There are more foreign-invested logistics enterprises developing in the PRC. With the “Eleven-Five” Plan introduced, the investment plan for infrastructure and transportation projects are set out.<sup>22</sup>

**Economic environment**

There are three main logistics providers (China Ocean Shipping Co, China Shipping Ltd and China National Foreign Trade Transportation Corp), which are named 3PLs.<sup>23</sup> They account for 85% of the business (KPMG, 2008). Their high quality services improve problem of market inefficiency. As The PRC is meeting the WTO requirements, there is massive foreign investment.

**Challenges of the PRC’s Logistics industry**

Many companies have poor management. They are not willing to outsource the logistics. In the PRC, only 16% of companies outsource, which is extremely low compared with the foreign average of 70% (Klako Group, 2007). Moreover, the quality of transport and operation vary among operators. The distribution inland is fragmented among small regions. Lastly, there is a gap between the PRC and the international logistics standard. The rail and road truck lines are insufficient and thus are over-loaded.<sup>24</sup>

To deal with the challenges, the government intensified efforts in removing industry

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<sup>22</sup> KPMG, 2008, ‘Logistics in China’, p.4

<sup>23</sup> Please refer to *Appendix XVII*.

<sup>24</sup> Klaus Koehler, Klako Group, 2007, ‘Logistics in China’, paragraph 2-3

bottleneck and cultivating large logistics corporation.

## **Summary**

It is forecasted that both the PRC and Hong Kong will maintain its strengths and have a good business environment in logistics industries. Hong Kong will develop a more advanced technology. The PRC will make use of the advantage of huge foreign capital.

### *3. Tourism Industry*

#### **Hong Kong**

##### **Performance**

As stated by the Hong Kong government, tourism is one of the four pillars of Hong Kong economy. The number of visitors rose from 15,536,839 to 28,169,293 from Year 2003 to 2007 (Tourism Commission).<sup>25</sup> There is a trend of positive growth. The value added by tourism industry to Hong Kong's GDP also keep rising, with HKD\$24,600 in Year 2002 to HKD\$35,000 in Year 2006 (Census and Statistics Department).<sup>26</sup>

##### **Legal environment**

Visa requirement favours the development of tourism. People from more than 170 countries or region are allowed to visit Hong Kong without the need to apply for a visa in advance (GovHK).

##### **Political environment**

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<sup>25</sup> Please refer to *Appendix XVIII*.

<sup>26</sup> Please refer to *Appendix XIX*.



Hong Kong Government provides much support to tourism industry. In the past few years, projects such as Hong Kong Disneyland, Wetland Park and Ngong Ping 360 completed with the government assistance. Projects under planning include New Cruise Terminal and Piazza in Tsim Sha Tsui (Tourism Commission).

### **Economic environment**

Hong Kong economy is dependent on the global economy. Thus, the performance of tourism industry is easily influenced. Since travelling is not a necessity, people simply cut their expenditure on travel and leisure during economic downturn. Under the current economic crisis, some travel agencies and airline companies have laid off some of their employees.

### **Others**

Individual Travel Scheme of the mainland China citizens boosts the tourism industry of Hong Kong. The number of travelers increases since the scheme was implemented in 2003.

<sup>27</sup> However, Hong Kong should also be cautious with the competition from nearby regions, such as Macau.

### **The PRC**

#### **Performance**

According to the China Statistic Press 2006, the number of tourists coming to China rises from Year 2000 to 2005, despite a drop in 2003.<sup>28</sup> Most of them are from Asia and Europe.<sup>29</sup>

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<sup>27</sup> Please refer to *Appendix XX*.

<sup>28</sup> Please refer to *Appendix XXI*.

<sup>29</sup> Please refer to *Appendix XXII*.

**Political environment**

The PRC government put plenty of resources in promoting local tourism. For example, the government launched a Quality Tourism website to praise honestly operated corporations in the industry. This can improve the reputation of China among other countries (Quality Tourism Website).

**Economic environment**

Same as the case of Hong Kong mentioned in the above, any economic downturn can seriously affect tourism. In addition, RMB have appreciated in the recent years, which indirectly increase the cost of travel of foreigners to mainland China. It may also be a factor which deters them to visit the PRC.

**Others**

With an increase in the reputation and world position, tourists from all around the world show more interest in China. According to the World Tourism Organization, China ranked the fourth in the World's Most Visited Countries in 2007.<sup>30</sup> The 2008 Beijing Olympics contributed a lot to the PRC tourism, both instant and long-term effects.

However, China still carries negative image, for instant, the existence of fake products. These factors indirectly impose a negative influence on tourism.

**Summary**

It is forecasted that both Hong Kong and the PRC can have a favourable business

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<sup>30</sup> Please refer to *Appendix XXIII*.

environment for the tourism industry development in the coming future. However, Hong Kong should notice the keen competition and maintain its competitiveness while the PRC should try to improve its present weaknesses.

## **5. Conclusion**

Hong Kong is able to maintain a steady growth in various industries and its competitiveness established long ago. Nevertheless, saturated market and keen competition from its neighborhood is a threat for sustainable growth.

China has an astonishing growth these years in legal and economic business environment and it is likely to continue for the coming years. Political intervention, however, is an obstacle for investors to develop confidence against China.

## **6. Outlook**

Hong Kong and China can cooperate with each other to attain mutually beneficial business atmosphere. Hong Kong can make use of China's huge population and massive labor to develop new markets and reduce production cost while China can learn from Hong Kong for its advanced technology, professional skills and mature economic practice. We believe that increasing cooperation can create a win-win situation.

## **7. Business Significance**

Our research aims at investigate and compare the legal, political and economic environment of business in Hong Kong and the PRC. We especially focus on three areas - banking, tourism and logistics because these three industries are the main business in Hong Kong and the PRC. We think having this kind of research is significant. The PRC is developing at an extraordinary rate now. It becomes one of the leading countries in the world. As part of the PRC, Hong Kong's business environment is greatly influenced by her. Meanwhile, Hong Kong faces fierce competition from other places such as Shanghai and Singapore. As a BBA student, we must have a good business sense and a wide international scope. We must be familiar with the recent business development of our country and Hong Kong. Through researching and discussing this area, we can surely benefit a lot from the project.

## **8. Methodology**

As mention in our proposal, we focus on the freshness and objectivity of our information found. Therefore, we locate information on the Internet for updated policies, articles and editorials. Nevertheless, books containing relevant information are our reference also. For the data that support our findings, we all use the most updated and official figures. We did not conduct any survey to illustrate our findings as the topic of our study is not base on personal opinion. One difficulty is the overwhelming information found on the Internet. We try to eliminate the irrelevant ones and just select data with economic significance.

## 9. Limitations

Financial ratios are used in our study. However, the accounting and financial reporting standards and practices differ from area to area and thus overstatement of the countries' performance may occur. Moreover, as the data we collected for study is mostly secondary data, we are uncertain of its reliability. These two factors hinder us from providing accurate evaluation.

Moreover, as we have set our topic to be on the business environment of Hong Kong and the PRC, comparison between the two places are hard to be drawn as Hong Kong is a city while the PRC is a country. Comparison between figures of the two places will be inaccurate.

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## 11. Appendix

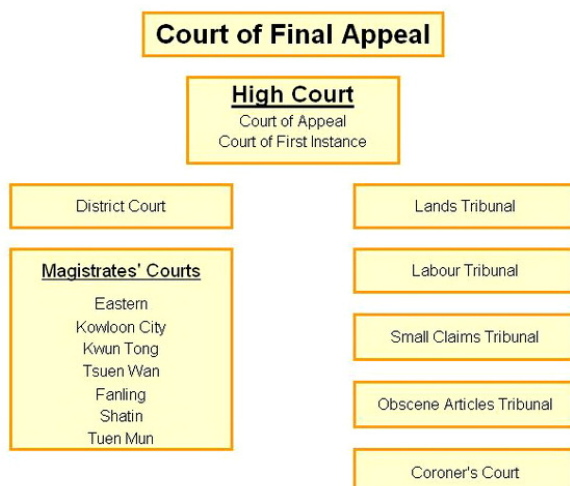
### Appendix I – Hong Kong’s tax system

Tax Type	Tax rate (for taxable year 2008/09)
Profit tax	At standard rate of year - limited company 16.5% - unlimited company 15%
Property tax	At standard rate of year 15%
Salaries tax	The lower of: -Progressive tax rate according to year, or -standard tax rate of year 15%
Stamp duty	Minimum \$100 to 3.75% of value
Hotel accommodation tax	Waived in year 2008

### Appendix II – Details of business registration in HK

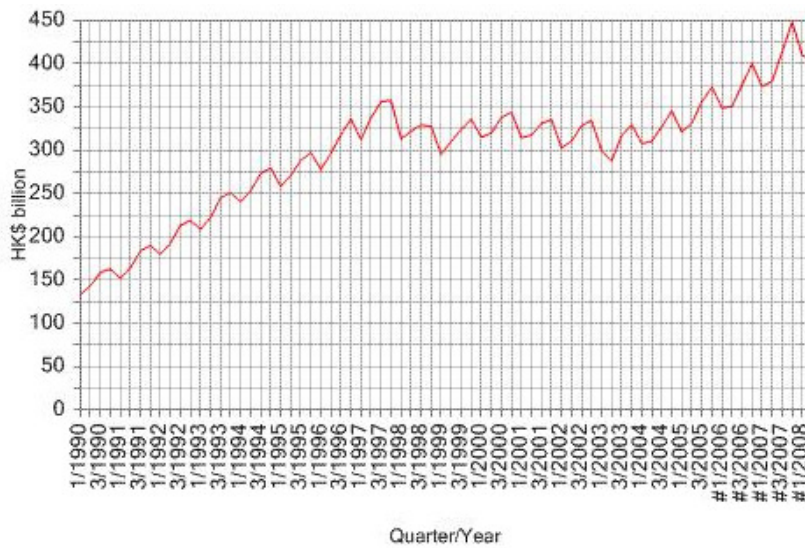
登記證的生效日期 Date of Commencement of Certificate	商業登記證 Business Registration Certificate					
	一年證 1-year certificate			三年證 3-year certificate		
	登記費 Fee	徵費# Levy#	總數 Total	登記費 Fee	徵費# Levy#	總數 Total
	\$	\$	\$	\$	\$	\$
01.04.2008 – 31.03.2009	0*	450	450	3,200*	1,350	4,550
14.03.2008 – 31.03.2008	2,000	450	2,450	5,200	1,350	6,550
01.04.2003 – 13.03.2008	2,000	600	2,600	5,200	1,800	7,000

### Appendix III – Hong Kong’s legal structure





Appendix IV – Graph of GDP (at real price) against year

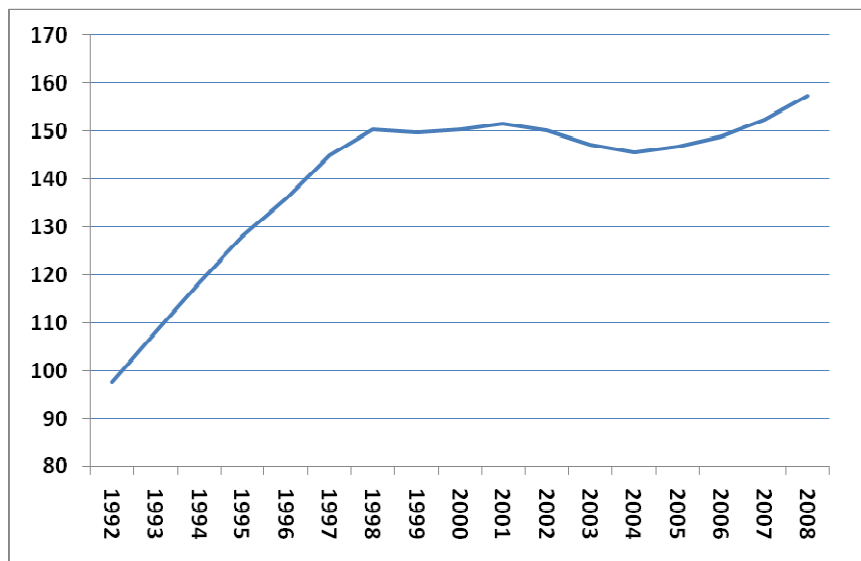


Source: census and statistic department

Figures are subject to revision later on as more data become available. Figures are the latest data released on 15 August 2008.

Appendix V - Graph of wage index against year (base year 1992)

Wage index



Source: census and statistic department

Appendix VI – 100% Deposit Protection Scheme

Deposits at	Protection Limit	Protected By
Licensed Banks	First HK\$100,000	Hong Kong Deposit Protection Board
	Above HK\$100,000 (Until the end of 2010)	Hong Kong SAR Government's Exchange Fund
Restricted Licence Banks and Deposit-taking Companies	Full amount (Until the end of 2010)	

On 14 October 2008, the Hong Kong SAR Government announced the use of the Exchange Fund to immediately guarantee repayment of all customer deposits held with all Authorized Institutions in Hong Kong following the principles of the Deposit Protection Scheme, until the end of 2010. This is a temporary precautionary measure introduced in the light of the turbulence in the international financial markets. The objective is to reinforce depositors' confidence in placing deposits with banks well before doubts develop.

*Appendix VII – Capital requirement in the PRC*

	Before	After
<b>Limited Company</b>	\$500,000	\$30,000
<b>Listed Company</b>	\$1,000,000	\$500,000

(Source: <http://www.cngsf.com/>)

*Appendix VIII – PRC tax system*

Type	Example
Circulation	Domestic Value-added Tax, Consumption Tax,
Profit	Business Tax, Enterprise Income Tax, Income Tax on Enterprises with Foreign Investment, Individual Income Tax
Resource	Resource Tax, Urban and Township Land Use Tax
Special	City Maintenance and Construction Tax, Land Appreciation Tax
Property	House Property Tax
Behavior	Vehicle and Vessel Usage Tax, Vehicle Acquisition Tax,
Agriculture	Agricultural Tax
Custom Duty	

(Source: State Administration of Taxation)

Appendix IX – PRC economic performance

Year	GDP Growth Rate
2001	108.1
2002	109.5
2003	110.6
2004	110.4
2005	111

Year	Foreign Investment(100m)	Growth rate
2000	711.30	–
2001	719.76	1.18%
2002	847.51	17.75%
2003	1169.01	37.93%
2004	1565.88	33.95%
2005	1925.93	23.00%
2006	2046.63	6.27%

Year	Contract Value(100m)	Turnover (100m)
2003	209.3	172.34
2004	276.98	213.69
2005	342.16	267.76
2006	716.48	356.05

(Source: National Bureau of Statistic of China)

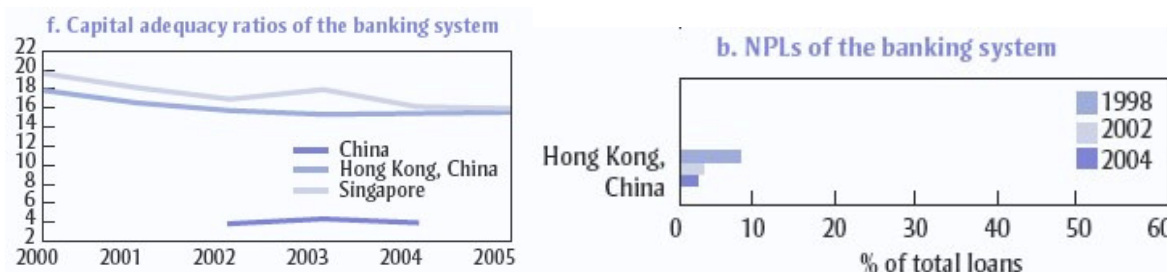
Appendix X – Ownership details of HK banks

TABLE 4.1 Changes in the Structure and Ownership of Commercial Banks

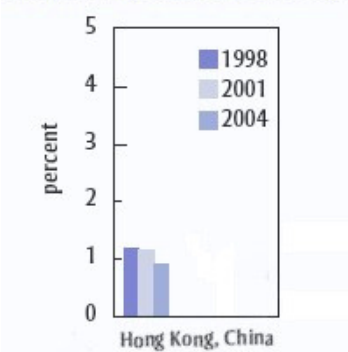
Economy	Number of banks (1)			Banking sector assets (percent of GDP) (2)		Concentration ratio of assets of top three banks (percent) (3)		Average state ownership in top ten banks (percent) (4)		Average foreign ownership in top ten banks (percent) (4)	
	1997	2002	2004	1997	2004	1997	2004	1997-99	2004	1997-99	2004
Hong Kong (China) <sup>b</sup>	361	224	208	587	485	29.7	53.4	0.0	0.3	63.1	66.5

(Source: World Bank)

Appendix XI – Performance of HK banking system



a. Operating costs to total assets



(Source: World Bank)

Appendix XII – Banking structure of the PRC

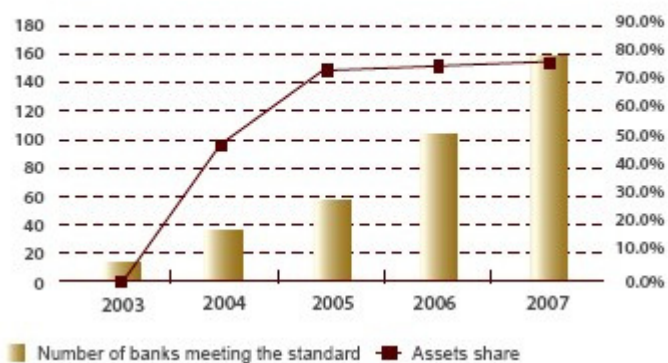
**Table 5.2**  
**The Banking Structure of Mainland China**

<b>Central bank</b>
People's Bank of China
<b>Policy banks</b>
State Development Bank of China
Agricultural Development Bank of China
Export-Import Bank of China
<b>State specialized banks</b>
Industrial & Commercial Bank of China
Bank of China
People's Construction Bank of China
Agricultural Bank of China

(Source: Yuen Yin Chan, 1998, 'The Banking System of Hong Kong: Perspective on Changes and Development')

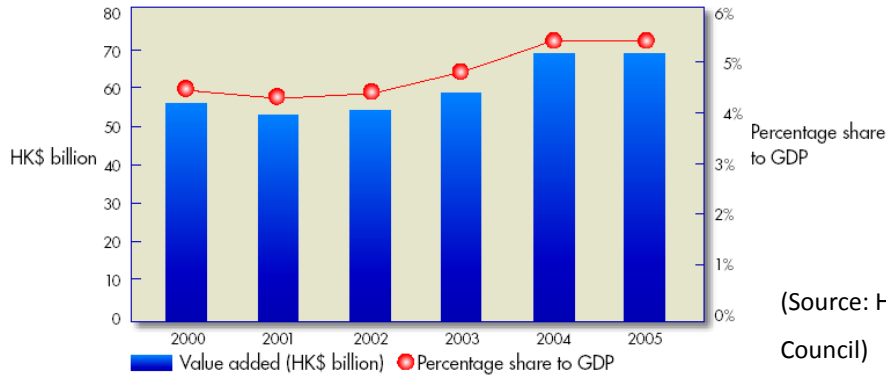
Appendix XIII – Capital adequacy of PRC banking system

**Chart 4: Numbers and share of banks meeting the CAR requirement (2003-2007)**

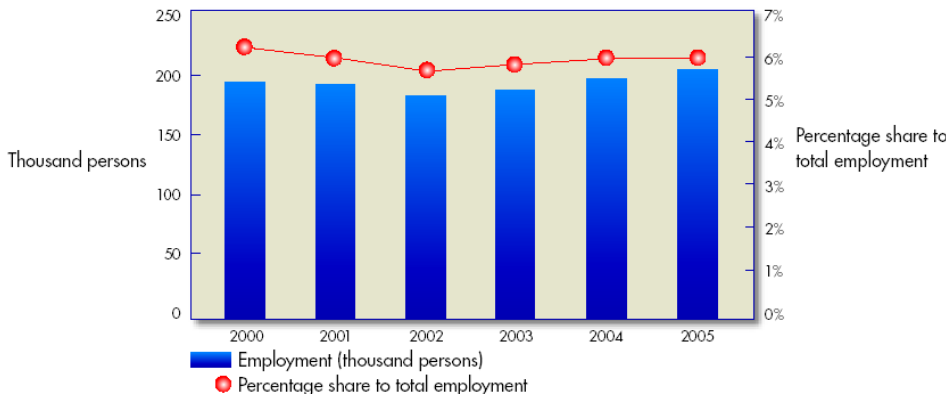


(Source: CBRC)

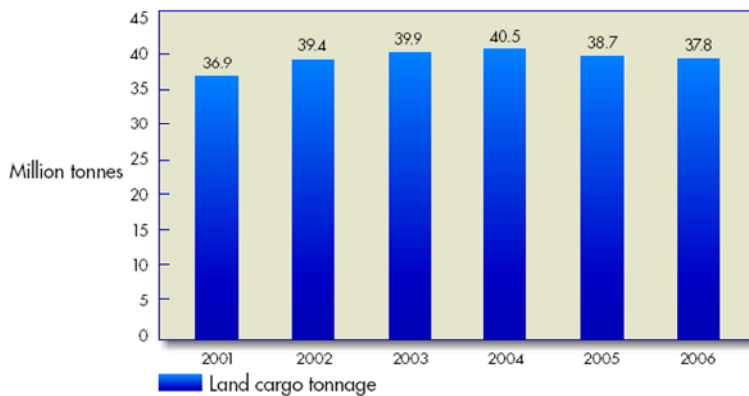
**Appendix XIV – Economic contribution of Hong Kong logistics industry**



(Source: Hong Kong Logistics Development Council)



**Appendix XV – Hong Kong cross-boundary road cargo throughput**

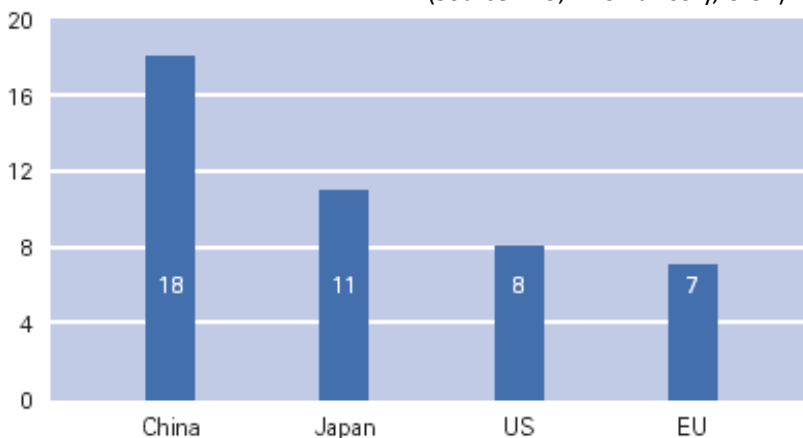


(Source: Hong Kong Logistics Development Council)

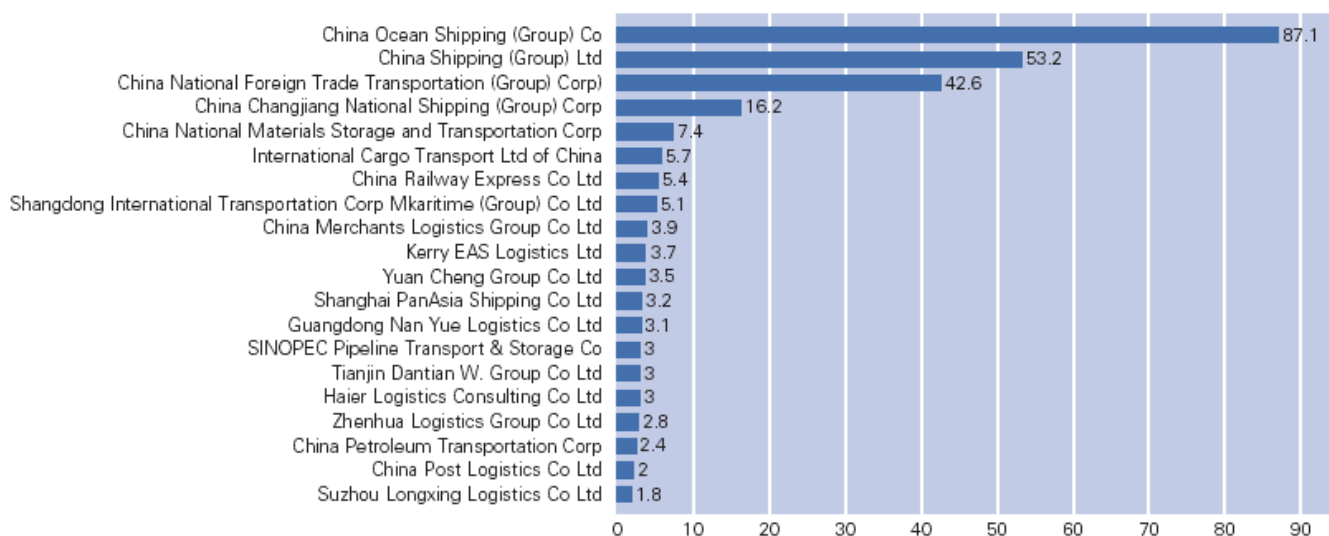
**Appendix XVI – Contribution of logistics industry to the PRC’s GDP**

**Logistics costs as a percent of GDP of select countries, 2006**

(Source: EIU, ARC Advisory, CLSA)



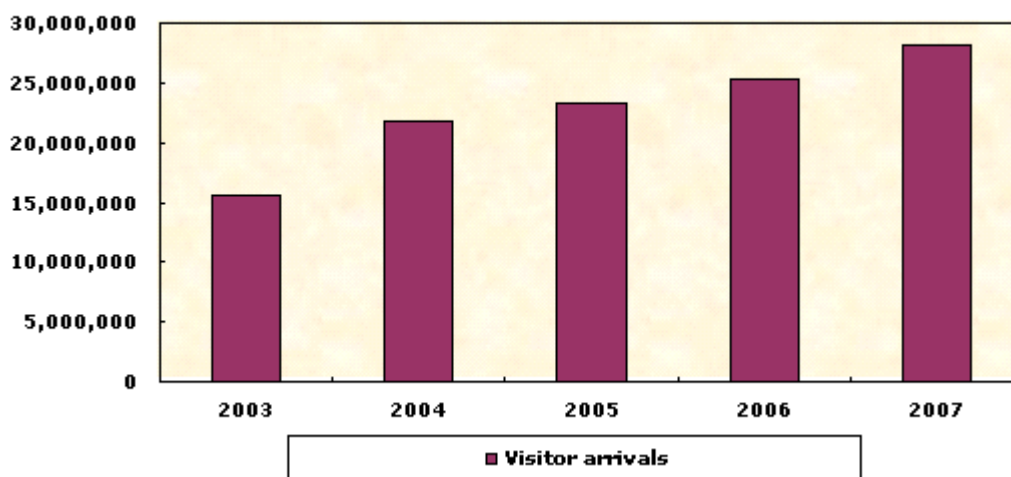
*Appendix XVII – China’s 20 leading transport and logistics businesses, 2006*



(Source: KPMG, 2008)

*Appendix XVIII – Visitors arrival to Hong Kong from 2003 to 2007*

**Visitor arrivals**



(Source: Tourism Commission)

*Appendix XIX – Value added of the tourism industry*

Tourism Total	34,200	27,500	36,900	42,700	45,300
(A) Inbound	24,600	19,500	27,400	31,900	35,000

(Source: Census and Statistics Department)

*Appendix XX – Number of free independent travelers to Hong Kong*

Item	2000	2001	2002	2003	2004	2005
Total Number of International Tourists ( 10 000 person-times)	8344.39	8901.29	9790.83	9166.21	10903.82	12029.23

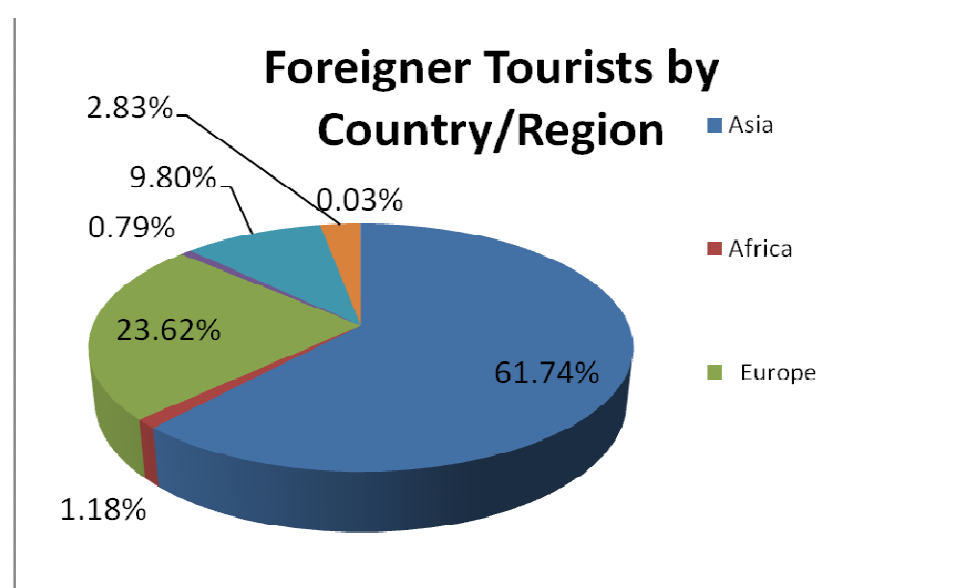
(Source: Mingpao)

*Appendix XXI – Development of tourism industry*

Year	No. of Tourists
2003(7 至 12 月)	667,271
2004	4,259,601
2005	5,550,255
2006	6,673,283
2007	8,593,141
2008(1 至 6 月)	4,360,333
Total	30,103,884

(Source: China Statistic Press)

*Appendix XXII – Place of origin of foreign tourists visiting the PRC*



(Source: China Statistic Press)

*Appendix XXIII – World's Most Visited Countries*

Rank 	Country 	UNWTO Regional Market 	International tourist arrivals (2007) <sup>[3]</sup> 	International tourist arrivals (2006) <sup>[9]</sup> 
1	 France	Europe	81.9 million	79.1 million
2	 Spain	Europe	59.2 million	58.5 million
3	 United States	North America	56.0 million	51.1 million
4	 China	Asia	54.7 million	49.6 million
5	 Italy	Europe	43.7 million	41.1 million
6	 United Kingdom	Europe	30.7 million	30.7 million
7	 Germany	Europe	24.4 million	23.6 million
8	 Ukraine	Europe	23.1 million	18.9 million
9	 Turkey	Europe	22.2 million	18.9 million
10	 Mexico	North America	21.4 million	21.4 million

(Source: World Tourism Organization)