



A lens on the Greater Bay Area

*Magnifying opportunities for
businesses in the region*



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KPMG China Offices

Foreword

The Greater Bay Area (GBA) represents a national development strategy to economically and socially integrate the nine cities in Guangdong province, as well as the Special Administrative Regions of Hong Kong and Macau, to create a world-class city cluster rivaling the world's leading bay areas in San Francisco, New York and Tokyo.

The GBA has the potential to become the most diversified city cluster in the world, by leveraging its wide range of industries and strengths across its cities, such as financial and professional services, high-tech manufacturing, and technology and innovation. This unique combination provides significant opportunities for companies that are looking to enter or build on their existing presence in China.

The increased connectivity and integration of the GBA will also facilitate the movement of goods and services, capital, people and information within the region. As the GBA continues to develop, it will play a larger role in boosting the domestic market, facilitating the implementation of the 13th Five-Year Plan, and serving as a key hub connecting countries along the 21st-Century Maritime Silk Road under the Belt and Road Initiative.

The GBA continues to be a major topic of discussion, with Premier Li Keqiang announcing after the conclusion of China's annual legislative session in March 2018 that an implementation plan for the region will soon be released. In support of the initiative, KPMG continues to grow its established presence in the GBA and help clients seize business opportunities across all sectors – including infrastructure and real estate, tax, financial services, capital markets, M&A and investment, and technology and innovation. Our experience and capabilities are supported by our ongoing analysis of the GBA. Our latest joint report with the Hong Kong General Chamber of Commerce featured insights from over 600 business executives in the region on GBA trends and opportunities, with a majority of respondents indicating strong support for the initiative.

This publication provides an overview of the key trends and developments, as well as opportunities for corporates in the GBA, and serves as a guide as to how businesses can partner with KPMG to capitalise on these opportunities.



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About the Greater Bay Area



The Greater Bay Area (GBA) represents a collaborative initiative to economically and socially integrate the nine cities in Guangdong's Pearl River Delta, as well as Hong Kong and Macau, to create a unified, connected and unparalleled bay area.

With a combined population of 68 million and GDP of USD 1.4 trillion, the GBA is well-positioned to play a leading role in advanced manufacturing, technology and innovation, shipping, trade and finance. The increased connectivity and integration of the GBA will also enhance the movement of goods and services, capital, people and information within the region, and facilitate the implementation of the 13th Five-Year Plan and the Belt and Road Initiative.

The GBA is set to rival the world's leading bay areas in San Francisco, New York and Tokyo by leveraging its diverse range of industries and strengths across its cities,

such as financial and professional services, advanced manufacturing, R&D and technology. These competitive advantages provide significant opportunities for businesses that are looking to enter or grow their existing presence in China.

A key focus of the GBA is the transformation of the region into an innovation and technology hub. This presents a number of opportunities for businesses, innovators and other key stakeholders to develop and test their ideas, nurture technology talent, forge strategic partnerships and drive innovative growth.

The development of the GBA into an ideal place for living, working and travelling is also a key priority. This involves the creation and enhancement of new and existing lifestyle facilities around sports and recreation, arts and culture, tourism and hospitality, which is expected to attract high levels of private sector participation.

The cities within the Greater Bay Area include Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen, Zhaoqing, Hong Kong and Macau.



Source: InvestHK



Key cooperation areas of the GBA

1. Promote infrastructure connectivity

- Strengthen transport links between the mainland and Hong Kong and Macau, and leverage the strengths of Hong Kong as an international transportation centre to build an efficient and modern integrated transport system.
- Continue to develop key projects in the region, including the Hong Kong-Zhuhai-Macau Bridge, the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the New Guangdong-Macau Link.
- Build stable and safe energy and water supply systems, and enhance information and communications network infrastructure.

2. Enhance the level of market integration

- Implement the Closer Economic Partnership Arrangement between the mainland and Hong Kong and Macau, improve the efficiency of immigration and customs clearance, enhance the flow of people and goods, and create a globally competitive business environment.
- Greater investment between mainland, Hong Kong and Macau enterprises.
- Encourage Hong Kong and Macau people to invest, set up businesses and take up employment in Guangdong.

3. Build a global technology and innovation hub

- Coordinate the use of global technology and innovation resources, and improve the systems and mechanisms for cooperation in innovation.
- Accelerate the process of building an innovation-driven economic system and development model.

4. Build a modern system of industries through coordinated development

- Leverage the respective advantages of industries in different GBA cities, promote the coordinated development of industries, and accelerate the move towards the high end of the global value chain.

5. Jointly build a quality living circle to provide an ideal place for living, working and travelling

- Improve the livelihood of people, enhance the capabilities and quality of social administration and public services, develop international education capabilities and improve the employment and entrepreneurial service systems
- Strengthen people-to-people exchanges, promote the development of culture and tourism in the region, build a healthy, green and sustainable GBA.

6. Cultivate new strengths in international cooperation

- Leverage the unique advantages of Hong Kong and Macau, strengthen cooperation with countries along the Belt and Road in infrastructure connectivity, trade, financial services, environmental protection and people-to-people exchanges, and jointly build an area for supporting and pursuing the Belt and Road Initiative.
- Support Guangdong, Hong Kong and Macau in jointly engaging in international collaboration on production capacity and “going global” together, and further improve the platform for opening up. Make better use of the ties with overseas Chinese, and support the GBA in taking the lead on the country’s participation in high-level international collaboration.

7. Support the establishment of major cooperation platforms

- Promote the development of major cooperation platforms in Qianhai of Shenzhen, Nansha of Guangzhou and Hengqin of Zhuhai.
- Support the establishment of cooperation platforms including the Hong Kong-Shenzhen Innovation and Technology Park, Daguang Bay Economic Zone in Jiangmen and Guangdong-Macau Comprehensive Cooperation Demonstration Zone in Zhongshan.
- Continue to develop a business start-up and employment base for the young people of Hong Kong and Macau.

Source: ‘Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the development of the Bay Area’, http://www.cmab.gov.hk/doc/issues/bay_area/Framework_Agreement_e.pdf

The development of the Greater Bay Area

October
2009

The development of the GBA is identified as a key focus for establishing cross-border regional coordination in the *Planning Study on the Coordinated Development of the Greater Pearl River Delta Township*, completed by the governments of Guangdong Province, Hong Kong and Macau

April
2010

Commencement of the "Study on the Action Plan for the Bay Area of the Pearl River Estuary"

The idea of a city cluster in Southern China is brought up in the country's 13th Five-Year Plan (2016-2020)

March
2016

Premier Li Keqiang announces plans to develop the GBA in his annual government report at the Fifth Session of the 12th National People's Congress of the People's Republic of China

March
2017

Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the development of the Bay Area

July
2017

Premier Li Keqiang announces that an implementation plan for the GBA will soon be issued

October
2017

President Xi Jinping emphasises the prioritisation of the development of the GBA at the 19th National Congress of the Communist Party of China

March
2018

Source: http://www.cmab.gov.hk/en/issues/bay_area.htm; <http://www.legco.gov.hk/yr10-11/english/panels/dev/papers/dev0222cb1-1308-4-e.pdf>



Competitive advantages

The cities in the GBA offer a diverse range of services and competitive advantages which, if harnessed effectively, will create an ecosystem that allows research and entrepreneurship to thrive, and will drive significant business and economic growth.

The Greater Bay Area's key competitive advantages

Large integrated market

The GBA's size, economic growth and connected market present significant opportunities for businesses across all sectors, including infrastructure and real estate, financial services, capital markets, M&A and investment, technology, tax and consumer markets.

The close cooperation between local governments on a broad range of topics including economic, immigration and tax policies, environmental and transport issues, and regulatory harmonisation, will help facilitate the seamless movement of goods, capital, labour and information, and enhance the ease of doing business in the region.

Diverse industry offering

The cities in the GBA offer a diverse range of skills and services, and leverage their comparative advantages to create significant and comprehensive business opportunities.

The region is able to draw on a strong manufacturing base in Dongguan, Guangzhou and Foshan, Shenzhen's advanced manufacturing, IT, technology and innovation strengths, and Macau's status as a global tourism and leisure centre. This is supported by Hong Kong's role as an international finance, transportation and trade centre, as well as an asset management and global offshore RMB hub. In addition, Hong Kong's professional and financial services community represents a deep and diverse talent pool of resources with international experience.

Local and international opportunities

Within China, the GBA has the potential to extend its reach beyond the Pearl River Delta to the nearby provinces of Fujian, Jiangxi, Hunan, Guangxi, Hainan, Guizhou and Yunnan.

The development of the area should also act as a catalyst for China's Belt and Road Initiative – a key national policy initiative that spans more than 70 countries and

represents a major driver of future investment in global infrastructure, trade and economic development. Chinese state-owned enterprises are also expected to play a highly active role in the Belt and Road Initiative, with many using the GBA as their national and international headquarters.

Innovation and technology hub

There are plans to transform the GBA into a global innovation and technology hub. An example of this is the development of the Lok Ma Chau Loop into the Hong Kong-Shenzhen Innovation and Technology Park (HSITP) on the border of the two cities. The HSITP is expected to leverage the technological strengths of the GBA cities by helping mainland enterprises explore global markets, and overseas firms to venture into the mainland. Once fully developed, it will provide over 350 hectares of dedicated space for start-ups, technology companies, higher education institutions and other innovation groups.

The Hong Kong 2018-2019 Budget has also set aside HKD 50 billion to support innovation and technology development in the region, with HKD 20 billion earmarked for the first phase of the HSITP.

Other key regional focus areas include investing in high-value manufacturing, biotechnology, fintech, artificial intelligence and robotics, encouraging and facilitating R&D, nurturing technology talent, and smart city development.

Connectivity

The GBA is home to a world-class transport and logistics network that is continually expanding and enhancing connectivity and the flow of goods, people and resources between cities.

New transport infrastructure including the Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macau Bridge and Guangzhou-Zhongshan-Zhuhai-Macau intercity railway will dramatically reduce travel times between major GBA cities, creating greater opportunities for closer cooperation, partnerships and trading between companies. These major infrastructure projects, in combination with many other initiatives, will make the GBA a key contributor to the further opening up of the Chinese economy.



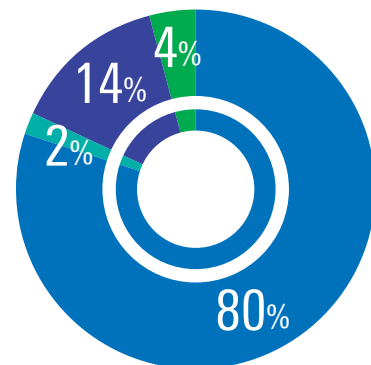
Business executive viewpoints

There is strong support for the GBA initiative, according to a recent joint KPMG and Hong Kong General Chamber of Commerce survey of over 600 business executives.



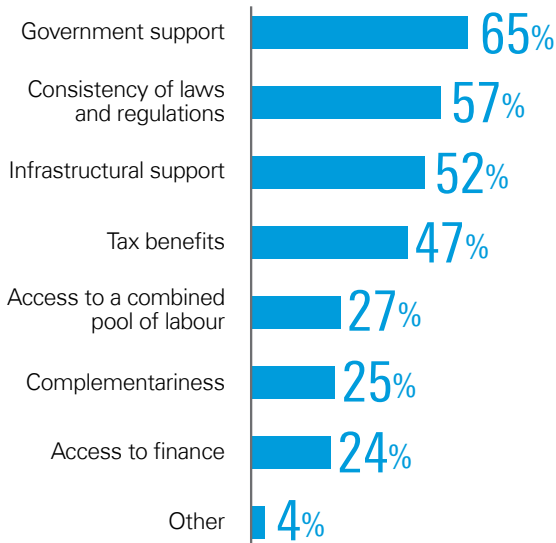
90% of respondents expect the GBA to have a positive impact on China's economy

Level of support for integrated development across Guangdong, Hong Kong and Macau



● Support
● Too early to tell
● Do not support
● No opinion

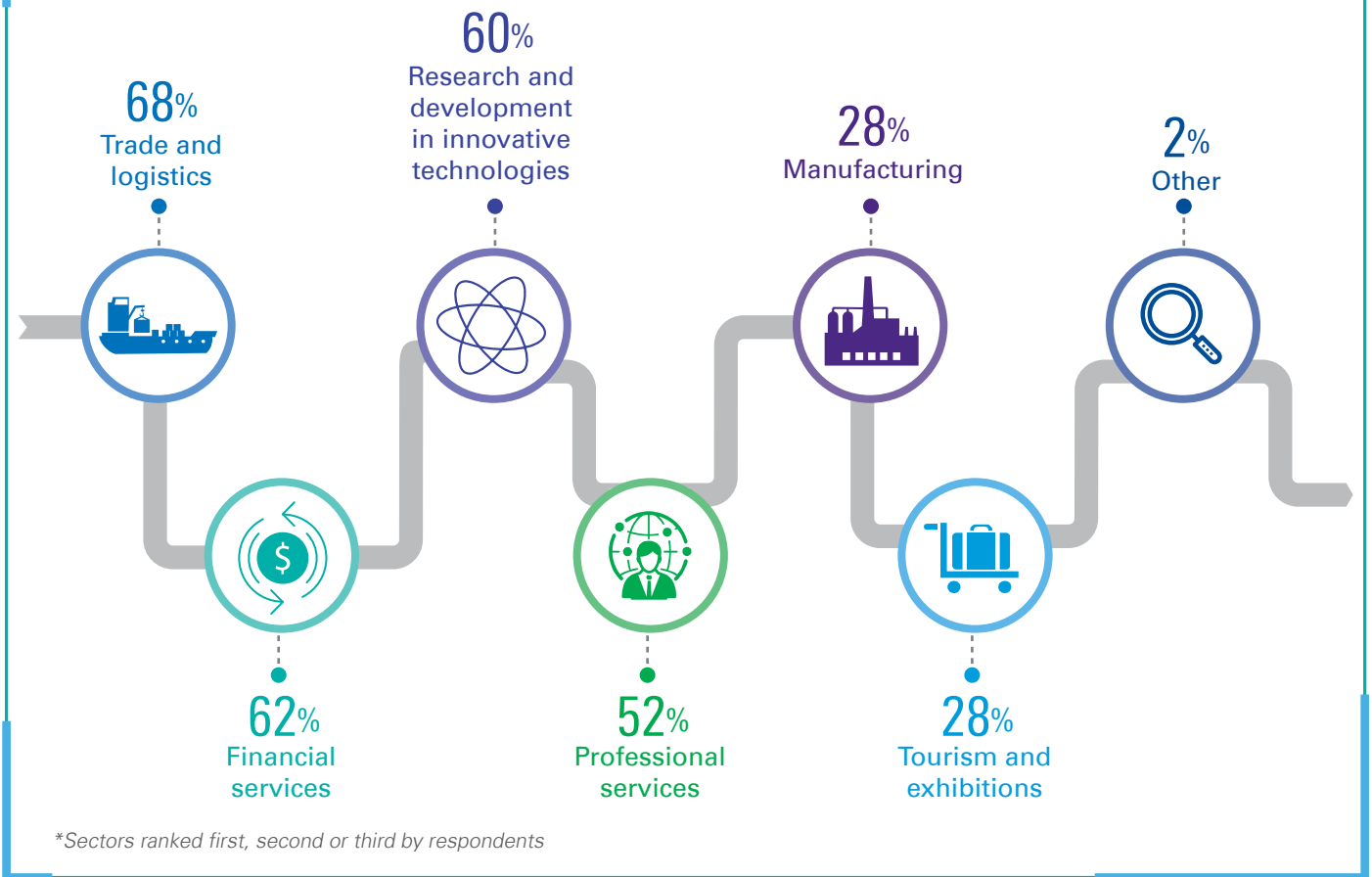
Topics crucial to the successful development of the GBA*



*Factors ranked first, second or third by respondents

Source: 'The Greater Bay Area Initiative – A survey on key drivers for success', KPMG and HKGCC, September 2017

Industries that will benefit most from the GBA's development*





Significant opportunities

The diverse range of industries and strengths across the GBA's cities provides significant opportunities for companies that are looking to enter or build on their existing presence in China. KPMG is well-positioned to advise clients on their investments and business strategies in the GBA.

How KPMG can help



Innovation and technology to drive smart cities



Building a solid foundation of infrastructure and real estate



M&A activity set to soar



Connected capital markets to drive growth



Financial institutions to capitalise on cross-border flows



Strategies to optimise business opportunities

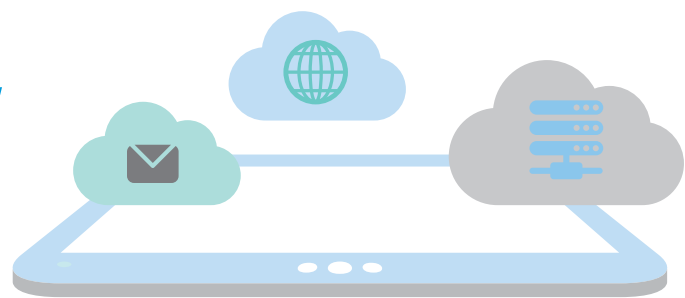


Navigating a new tax landscape



Mobilising and aligning talent

Innovation and technology to drive smart cities



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The transformation of the GBA into an innovation and technology hub remains a key priority. This presents a number of opportunities for businesses, innovators and other key stakeholders to develop and test their ideas, deepen the talent pool, connect with strategic partners, and drive innovative and digitally-driven growth.

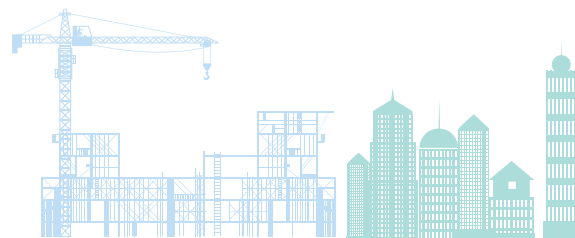
Key innovation and technology themes

- **Innovation ecosystem:** There is a need to create an ecosystem of innovation in the GBA to encourage the enablement of technology, new ways of thinking and greater access to data. This will involve closer collaboration between corporates, innovators and the government, effective utilisation of infrastructure and capital, and strategic talent mobility policies. In addition, this will help the region become a hub for attracting technologies that can be adopted in China, and for developing and exporting local technologies to the world.
- **Digital transformation:** The development of the GBA into a technology and innovation hub presents an opportunity for companies to focus on optimising their digital strategy. This may include undergoing digital transformation throughout the organisation to maximise existing resources and talent, improve or automate processes, create new business opportunities and become more agile and competitive.
- **Smart city development:** The continued integration of the GBA could help transform the region into a 'mega smart city' that is well-connected, digitally-focused, and facilitates the seamless movement of goods, capital and labour. In addition to enhancing the connectivity and ease of doing business in the region, this is likely to encourage innovation, attract talent and promote the sharing of information.
- **New Economy:** The creation of an innovation hub in the region will help to nurture next-generation New Economy innovative businesses, and strengthen the region's position as a centre to develop and test new ideas. This can be enhanced by tapping into the competitive advantages of the different cities in the region – Southern China's advanced manufacturing, high-tech and IT capabilities, and Hong Kong's R&D and fintech strengths, and its ability to attract international talent.

The KPMG innovation and technology proposition

- **Innovation ecosystem facilitator:** Our understanding of the entrepreneurial ecosystem and China business landscape, supported by our technology consulting, capital raising, compliance strategy, deal advisory and IPO experience, enables us to help innovative entrepreneurs navigate and grow in the China market. Our regional network of professionals advise strategic and sophisticated investors on technology-related investment opportunities in the GBA, as well as on overseas investments by Chinese companies. We also help connect businesses with relevant partners in the region to enable them to collaborate, innovate and drive growth in the New Economy.
- **Smart city advisory:** We have in-depth experience in advising on matters relating to smart city development, including governance and policy, infrastructure, data analytics, financial feasibility and technology consulting.
- **Digital strategy and transformation:** Our professionals help established businesses make transformative changes and innovate, focusing on digital transformation, business and digital strategies, data analytics, robotic process automation, process optimisation and customer experience. This offering is enhanced by KPMG's comprehensive suite of data analytics tools and services. At the firm's Insights Centre, our specialists collaborate with clients to extract and harness real-time data to help them develop effective and informed business strategies.

Building a solid foundation of infrastructure and real estate



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Significant infrastructure development is a key pillar of the vision for the GBA. This is expected to generate high volumes of infrastructure and real estate development, creating plenty of investment opportunities for existing and new players in the region.

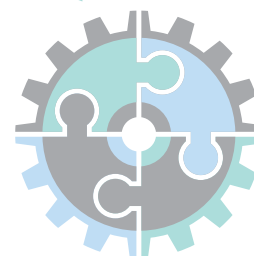
Key infrastructure and real estate themes

- **Connectivity:** New transport infrastructure is expected to be a game changer for the GBA. The Express Rail Link, Hong Kong-Zhuhai-Macau Bridge and Guangzhou-Zhongshan-Zhuhai-Macau intercity rail link will dramatically reduce travel times between major GBA cities, creating greater opportunities for commercial partnerships and trading between companies within the region. In addition, this new infrastructure is expected to lead to extensive residential and commercial real estate development across the GBA.
- **Quality living circle:** A key focus of the GBA is the creation of a quality living circle that provides an ideal place for living, working and travelling. A big part of this objective relates to the development and enhancement of new and existing lifestyle facilities such as sports venues, recreational and community centres, arts and cultural spaces, exhibition and convention centres, theme parks, tourism attractions and hospitality projects. We expect high levels of private sector involvement in these opportunities across professional services, construction, investment, financing, operations and content provision.
- **Global innovation and technology hub:** There are large-scale plans to establish the GBA as a global centre for innovation and technology. In terms of facilities development, an example of this is the Hong Kong-Shenzhen Innovation and Technology Park. Stretching across the border between the two cities, when fully developed, the Park will provide over 350 hectares of dedicated space for start-ups, technology companies, higher education institutions and other innovation groups. If delivered effectively, this project has the potential to be a significant driver of future economic growth and commercial activity for local industries, while providing a platform for technology companies to participate in the Belt and Road Initiative.
- **Changing demographics:** Greater freedom of movement of people within the GBA will create new residential and commercial real estate dynamics. In particular, as talent from Hong Kong, Macau and overseas is granted greater access to Guangdong-based employment opportunities, it is expected that this will lead to higher investment in Guangdong residential accommodation, as well as increased commercial development in these cities.

The KPMG infrastructure and real estate proposition

- **GBA expertise and network:** KPMG's Infrastructure & Real Estate Advisory teams work with governments, investors, builders and operators across the region, and have advised on some of the most prominent projects in the GBA. In addition, our teams support clients across all facets of the asset life cycle from initial strategy, development planning, procurement, design, construction, operations, redevelopment and divestment.
- **Global coverage:** Our network of infrastructure and real estate specialists includes more than 7,500 dedicated professionals across 110 countries and territories. This comprehensive coverage and experience enables us to identify and advise on investment opportunities for our clients across all major infrastructure and real estate sectors.

M&A activity set to soar



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As the GBA continues to evolve, businesses operating in, or looking to enter, the market will need to review their medium and long-term strategies to assess how best to capitalise on the many opportunities.

Key deal-making, investment and valuation themes

- **Greater business participation:** The integration of the GBA will facilitate the greater movement of goods, resources and capital, which will support those whose strategy is to increase participation in the opportunities the region presents. Increased investment, collaboration and M&A opportunities are expected to facilitate entry or broader participation in the region. Companies that are not operating in the region may consider investment by acquisition as a viable entry route, and the closer integration of markets in the region will also likely lead to an increase of investment in existing business operations, or the expansion into new markets and locations in the GBA.
- **Multi-sector investment opportunities:** The growth of the GBA will lead to investment and M&A opportunities across all sectors, including infrastructure, financial services and technology. A robust strategy and a comprehensive understanding of how to execute deals in China will be critical. Businesses that are able to adapt to the fast-changing environment – and manage their workforce effectively – will be the ones that will succeed in taking advantage of the investment and deal-making opportunities in the region.
- **Hub for the Belt and Road Initiative:** The development of the GBA is expected to transform the region into a key hub for facilitating China's Belt and Road Initiative. By combining the competitive advantages of the cities in the GBA – for example, Shenzhen's high-tech manufacturing and innovation capabilities, Guangzhou and Dongguan's manufacturing strengths, and Hong Kong's position as an international finance centre and RMB hub – the region is well-placed to be at the centre of M&A, investment and financing activity. This efficient combination of capital, high-tech, innovation and manufacturing capabilities continues to create a solid foundation for businesses within the region to pursue outbound opportunities.

The KPMG deal-making, investment and valuation proposition

- **Regional strategy team:** Our Deal Strategy teams support our clients in developing robust market entry and M&A strategies to capture opportunities and respond and adapt to changing trends and disruptive forces.
- **Full suite of deal advisory services:** We bring comprehensive experience across the deal cycle to assist with the full range of GBA deal opportunities. This includes assisting with implementing acquisition and divestment strategies, securing financing and funding for investment, handling complex turnaround and business restructuring, carrying out asset valuation requirements and supporting the execution of JV transactions.

Connected capital markets to drive growth



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With a deep capital pool comprising both institutional and retail investors, the GBA remains an attractive and leading region for listing and trading securities, both for domestic and international businesses.

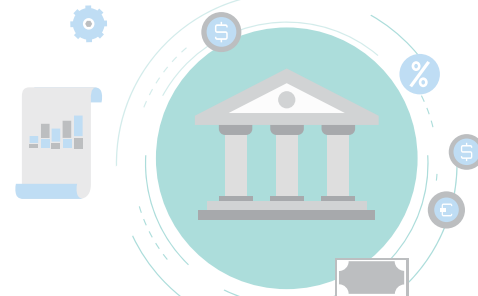
Key capital markets themes

- **Cross-border capital flow:** The integration of the Stock and Bond Connect schemes between mainland China and Hong Kong – including the Shenzhen-Hong Kong Stock Connect within the GBA – continues to deepen, with an increasing number of international and mainland Chinese investors trading securities across markets.
- **Hub for New Economy listings:** With innovative sectors booming in China and globally, the stock exchanges in Shenzhen and Hong Kong are well-positioned to capitalise on this growing trend, and are taking steps to attract listings of New Economy companies.
 - The Shenzhen Stock Exchange plans to reform the ChiNext Board, with a focus on the profitability and unique characteristics of innovative technology companies, improving listing requirements, and enhancing inclusiveness for different types of companies.
 - The Hong Kong Stock Exchange has introduced a new listing regime to allow the listing of biotech companies that do not meet any of the financial eligibility tests of the Main Board, high growth and innovative companies with weighted voting right structures, and qualifying issuers seeking a secondary listing in Hong Kong.
- **Education, healthcare and technology IPOs:** The movement and management of talent is a key consideration for companies operating in the GBA. This is likely to give rise to greater demand for education, healthcare and technology. There is an increasing number of initial public offering (IPO) applications from companies operating in these industries, and Shenzhen and Hong Kong continue to be ideal venues for these listings.
- **Bond market growth:** The closer integration of the GBA will lead to more business opportunities and greater demand for financing, including for green bonds. Issuers can take advantage of the strong investor base in the region to issue bonds in Shenzhen and Hong Kong.

The KPMG capital markets proposition

- **Comprehensive service and global network:** Our global network comprises experienced professionals who advise companies on all stages of the capital raising process. We advise on IPOs and restructuring for listings on both local and international securities exchanges. We act as reporting accountants, performing financial statement audits and other listing-related assurance work, and advising on internal controls and comments raised by the regulators. As part of our pre-IPO services, we also advise on a company's listing preparations including its operations, finance and management teams, assist in liaising with the sponsors and other advisors, and facilitate the sponsors' financial due diligence.
- **Strong track-record in the region:** Our experienced professionals in the GBA have a strong track-record in working with clients on their IPOs and debt offerings in the region. These include listings from both traditional industries, as well as innovative and increasingly popular sectors including education, healthcare and technology.
- **Capital Markets Group:** Our Capital Markets Group advises on the issuance and trading of both equity and debt securities, including listing opportunities for New Economy companies from emerging and innovative sectors, and green bond issuances. The group also works with clients on corporate finance and fundraising opportunities, both locally and internationally.

Financial institutions to capitalise on cross-border flows



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The GBA stands as a major market for financial and high-value industries. The region's size, as well as the different stages of development among its cities, present significant opportunities for the financial services sector.

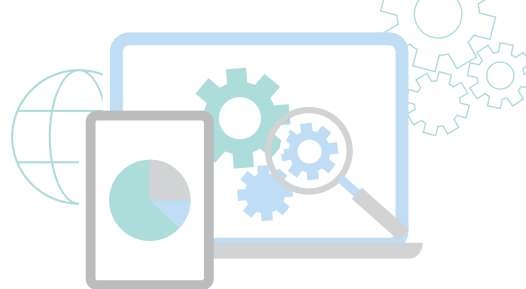
Key financial services themes

- **Large integrated market:** The GBA as a single connected market offers investors and businesses a hub for both financing and the export of high-value goods and services. It is also likely to generate more demand for banking, insurance and financing, including the leasing of equipment and machinery for manufacturers, and green finance. This will also present significant opportunities for the professional services sector.
- **Asset and wealth management:** The GBA is expected to create asset and wealth management opportunities for existing and new fund managers. This will generate fundraising opportunities for private equity, venture capital and other specialist capital investment groups, as well as knock-on business for asset management service companies such as trust companies, legal advisors and investment consultants. Hong Kong has also introduced a range of measures that promote the city as an asset management hub and complement its role in raising capital. In addition, the rise in wealth accumulation is leading to a greater demand for more sophisticated financial services, as well as tax and structuring advice.
- **Fintech development:** There is expected to be closer collaboration between financial institutions and fintech firms, as banks continue to seek to digitise and adopt advanced technologies to grow and improve their product and service offerings. In particular, regulators continue to foster fintech innovation as the industry enters a new era of Smart Banking. We may also see further developments and improvements to new and existing fintech sandboxes for piloting trials of fintech products in the region.

The KPMG financial services proposition

- **Regional experience:** KPMG has an established footprint in the region and a long history of working with some of the largest local and global banks and financial institutions. Our specialists leverage their in-depth investment, syndicated lending and legal market knowledge to provide comprehensive and tailored solutions throughout the entire investment cycle. Our experienced professionals also advise clients – ranging from start-ups and established companies to private equity firms and investment banks – on transactional support, financial risk management, tax, auditing and financial statement accounting.
- **Data analytics:** By leveraging big data and data analytics solutions, our professionals provide detailed insights to enable local, regional and international clients to create suitable businesses strategies in the GBA.

Strategies to optimise business opportunities



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The increasing connectivity within the GBA, as well as the region's diverse range of industries across its cities, provide significant opportunities for companies that are looking to enter or build on their existing presence in China.

Key strategy themes

- **Supply chain optimisation:** The increased connectivity of the GBA and the resulting freer and faster movement of goods, capital and labour presents opportunities for companies to optimise their supply chain. Businesses should carefully assess their existing sourcing, manufacturing, warehousing and distribution structures to ensure that they are fit for purpose and relevant to the region.
- **Strategic review:** It will be important for enterprises to review and tailor their current and future strategies for the GBA to remain agile enough to respond effectively to market changes. This may require transforming the business, streamlining operations, consolidating assets, expanding product and service offerings, or finding suitable strategic partners. Understanding and deciding on what to aim for, where to play, how to win and what to do will be key to being successful in the GBA.
- **Regulatory harmonisation:** As the region continues to integrate, there will be a concerted effort by the Guangdong, Hong Kong and Macau regulators to harmonise policies, for example around environmental, social and governance issues. Companies need to prepare for more stringent regulatory requirements across the region, which will likely lead to higher compliance costs and more training.
- **Access to technology and innovation:** The region continues to develop into a leading technology and innovation hub. This provides opportunities for businesses to facilitate innovation, increase the effectiveness of their R&D spending and move up the value chain by working with the growing number of technology and innovation incubators in Shenzhen and Hong Kong.
- **Macro outlook:** When creating their medium- and long-term strategies, companies should consider the mandates of the national government regarding the industries and sectors they want to develop. It is important for companies to assess the potential impacts on their industry, and mobilise resources and talent accordingly to ensure that their objectives are aligned with China's vision and priorities.

The KPMG strategy proposition

- **Strategy Group:** Our Strategy Group helps clients create and implement robust strategies to deliver real value and drive innovation in financial, business and operating models. We help our clients adapt and respond to disruption – harnessing market shaping forces to their advantage, while mitigating their adverse impacts. We support them in defining their ambition and developing strategies that balance the hard edge of financial performance and investment returns with risk and innovation.
- **Comprehensive service and experience:** Our experienced professionals advise clients on four key propositions:
 - Digital transformation: Helping clients achieve significant business and operating model change through a digital lens, typically at the portfolio level.
 - Growth strategy: Designing and implementing platform-based growth strategies to the business model, while considering operating model implications.
 - Deal strategy: Advising clients on strategic investment decisions, divestments and partnerships in a range of transaction settings and stages (pre-deal, in-deal and post-deal).
 - Operating strategy and costs: Identifying, quantifying, prioritising and delivering the changes required to align clients' operating models to their financial targets and strategic objectives.

Navigating a new tax landscape



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Enterprises participating in the GBA have to plan ahead and properly manage tax risks and utilise tax incentives to capitalise on opportunities presented by the greater movement of people and capital.

Key tax themes

- **Permanent establishment (PE) and tax residency risks:** Since the GBA consists of three different tax jurisdictions, an enterprise could be liable to tax in multiple jurisdictions if its tax affairs are not properly planned. Enterprises need to carefully manage and establish appropriate operating protocols to ensure they do not create inadvertent PE or tax residency risks in the GBA. While related party transactions between different tax jurisdictions will be closely examined by the tax offices, there are planning opportunities for groups of enterprises to enhance their overall tax efficiency.
- **Movement of capital:** Southern China's strong manufacturing base, combined with Hong Kong's connectivity to the rest of the world, presents significant investment and growth opportunities to businesses operating in the GBA. At present, where a Hong Kong enterprise enters into a duly approved "contract processing arrangement" with a Mainland Chinese enterprise, only 50% of the profit derived by that Hong Kong enterprise is subject to Hong Kong Profits Tax. Furthermore, special tax incentives are currently available in some GBA cities in Mainland China (e.g. favourable Corporate Income Tax rate of 15% for specific industries in Qianhai), while a super tax deduction is expected to be introduced in Hong Kong shortly to promote R&D activities. Enterprises should therefore carefully plan their investments in order to take advantage of these tax incentives.
- **Movement of people:** Increasing R&D investment is critical to the transformation of the GBA into an innovation-driven economy. One way to augment R&D and develop a knowledge and research base is through cross-border collaboration between academics and research institutions. A current obstacle to Hong Kong academics and researchers working full-time in Mainland China is the higher income tax compared to Hong Kong. To facilitate cross-border collaboration, the Hong Kong SAR Government should consider adding a frontier workers mutual tax exemption clause – similar to what is commonly adopted in the European Union – into the existing Mainland China-Hong Kong double taxation agreement, to remove the tax obstacle to all professionals and workers moving freely within the GBA.

The KPMG tax proposition

- **Comprehensive tax support:** Our tax team in the GBA comprises experienced Corporate Tax Advisory and Mergers and Acquisitions Tax teams that have participated in many high-profile cross-border transactions and restructuring deals. KPMG is well-positioned to support our clients that participate in the GBA with current in-depth tax advice throughout the deal cycle. This includes providing tax due diligence and structuring assistance, advising on appropriate operating/financing arrangements, as well as potential tax-efficient exit strategies and tax modelling assistance. In addition, KPMG offers a broad range of tax services to support our clients including, but not limited to, transfer pricing, trade and customs, tax dispute resolution and controversy, salaries tax and personal tax planning, and global compliance management services.
- **National tax network:** KPMG has an extensive national network of tax professionals located in the GBA. We offer our clients in-depth technical and practical knowledge of tax rules across all sectors, including manufacturing, real estate, infrastructure, financial services, private equity and the services industry.

Mobilising and aligning talent



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In order to achieve long-term success in the GBA, it will be important for companies to put the right people and organisational structures in place.

Key talent management themes

- **Movement of labour and skills:** The increasing connectivity and integration of the GBA will lead to the freer movement of labour, and will create greater demand for training and rapid upskilling to support business activities. Developing a robust people and mobility policy to ensure compliance with local immigration and tax requirements will also be key.
- **Employee engagement:** Developing and transforming people policies and strategies to attract and retain talent in the GBA, and creating the right opportunities for employees – with competitive remuneration a key factor – will be an important theme for both new and existing businesses in the region.
- **Organisation and capabilities:** Companies should ensure that they are agile enough to respond and adapt to new opportunities in the region. This includes making sure the business is seen as an attractive place to work, ensuring the right capabilities and organisational structures are in place, and managing that transition. In addition, companies will need to consider how digitising and adopting advanced technologies might affect the organisational composition and skills required to manage a hybrid human-digital workforce.

The KPMG people proposition

- **Employee engagement and mobility:** Our experienced professionals advise clients on their people policies and strategies, and on delivering programmes to enhance the employee experience across a multigenerational workforce. We apply our proven talent management insight and awareness of local market conditions to create a compelling offering and experience – with remuneration an important factor – to attract and retain employees. We also advise on developing robust mobility policies to enable organisations to be compliant with local immigration and tax requirements, while remaining agile and responsive to the needs of the business.
- **Organisational transformation:** We define transformation programmes to enable our clients to expand in existing markets, or transition into new markets, locations and/or ways of working. We partner with clients to determine their future capabilities and organisational requirements, and tailor the strategies to respond to changing market trends and technologies. This entails aligning our globally proven approach and capabilities in the areas of change management, organisation design, talent management and workforce transition to ensure that organisations are competitive and fit for purpose.
- **Executive recruitment capabilities:** Executive Search and Recruitment is a business unit of KPMG, with over 20 years of experience serving clients across a wide range of businesses and professions. This sets us apart from the competition, as we are able to draw on the firm's professional expertise and deep knowledge base. We offer customised services across all aspects of the recruitment process, from advertising to executive database search and headhunting, and provide insights on the latest human resources and market developments.



About KPMG

KPMG China operates in 17 cities across China, with around 12,000 partners and staff in Beijing, Beijing Zhongguancun, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 154 countries and territories and have 200,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm’s appointment by some of China’s most prestigious companies.



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