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BRITISH CHAMBER OF COMMERCE
GUANGDONG 广东英国商会

How to survive in South China as an SME

Presented by:

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Karen Huang

July 30, Friday, 2021



Today's Speakers



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Joining the Dots

Your Business Link Between the UK and South China



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The British Chamber of Commerce **Guangdong** is an independent, non-profit organisation formed to facilitate and support Chinese and British companies operating in the PRD, now the GBA.



Promote

GBA Symposium



Connect

BritCham in Your Neighborhood



Share

Education Working Group



Access

Business Luncheon with British
Consul-General



Supporting Members



Britannia International School
广州市英伦国际学校



广州斐特思公学
Fettes College
Guangzhou



MISSION HILLS
觀瀾湖

Partners



British
Consulate-General
Guangzhou



Department for
International Trade
国际贸易部



英国总领事馆文化教育处



China-Britain
Business Council
英中贸易协会



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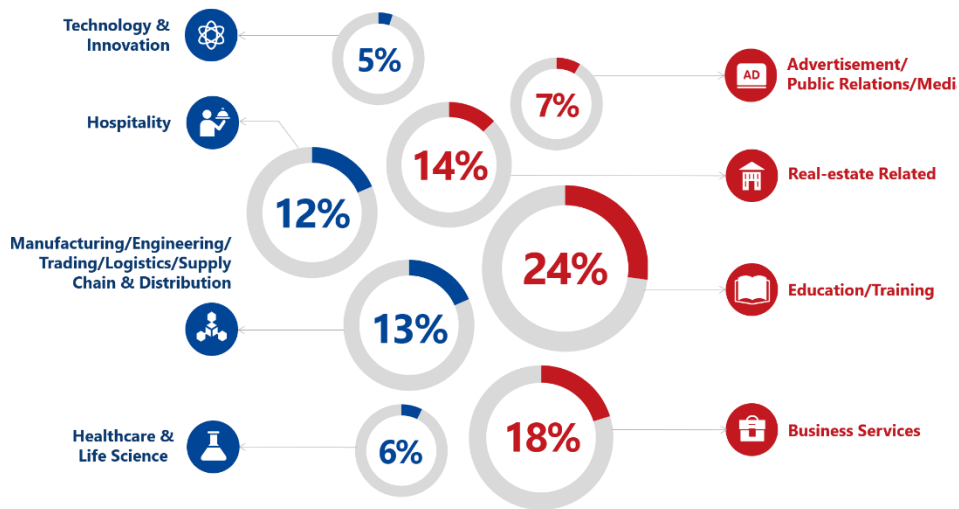
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What BritCham Guangdong Can Help

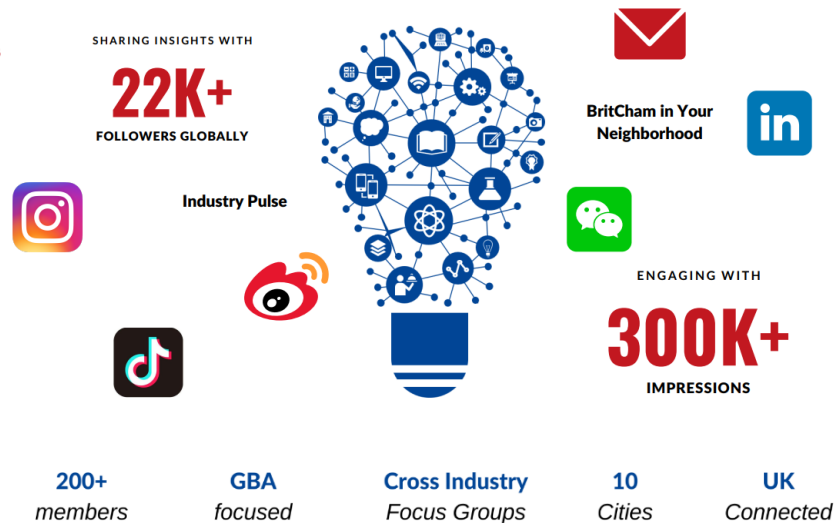


BRITISH CHAMBER OF COMMERCE
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SHARING - Industry Focus Groups



PROMOTING - Marketing



What BritCham Guangdong Can Help



BRITISH CHAMBER OF COMMERCE
GUANGDONG 广东英国商会

CONNECTING - Events

BritCham GD Business-Savvy Series

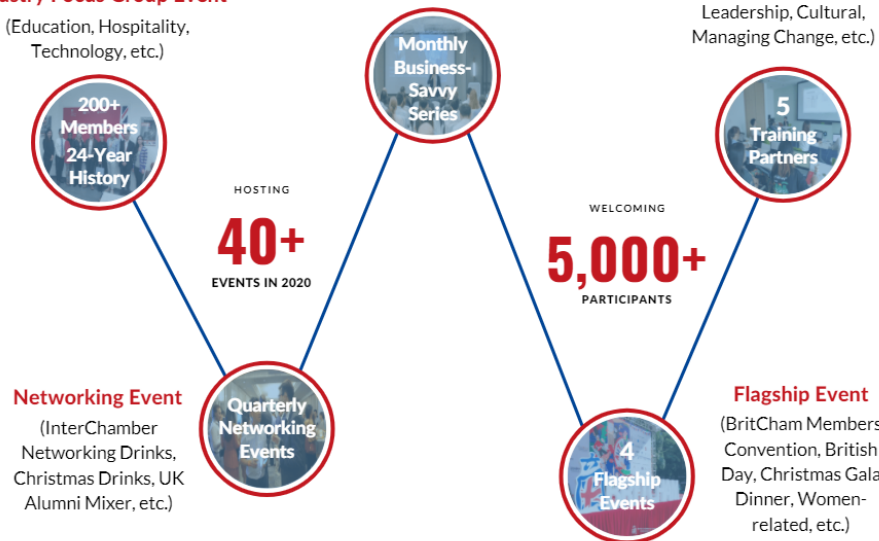
(Members' Fireside, Executive Dinner, Seminars, Roundtables, Forums, Workshops on 'How to Start/Operate/Grow a Company', etc.)

Upskill Training

(Business Management, Marketing & Branding, Leadership, Cultural, Managing Change, etc.)

Industry Focus Group Event

(Education, Hospitality, Technology, etc.)



Networking Event

(InterChamber Networking Drinks, Christmas Drinks, UK Alumni Mixer, etc.)



Members' Fireside

50-100 members
Business/Referrals/Networking



British Day

2,000-4,000 guests
Britishness/Family/Culture/Education



InterChamber Networking Drinks

200 guests
Networking/F&B/Business



Christmas Gala Dinner

200-300 guests
Culture/Christmas/Network/Carnival

BritCham Guangdong Upcoming Flagship Events

Date	Time	Event	Location
26 th August	13:30-17:30	GBA Technology & Innovation Summit	Shenzhen
Late October	Whole day	British Day Guangzhou (collaboration opportunity is now open)	Guangzhou
Early November	Whole Day	British Day Shenzhen (collaboration opportunity is now open)	Shenzhen





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Agenda

Section 1:

GBA Overview with a British Perspective

□ Presented by Guilherme Campos



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72 million
Total Population



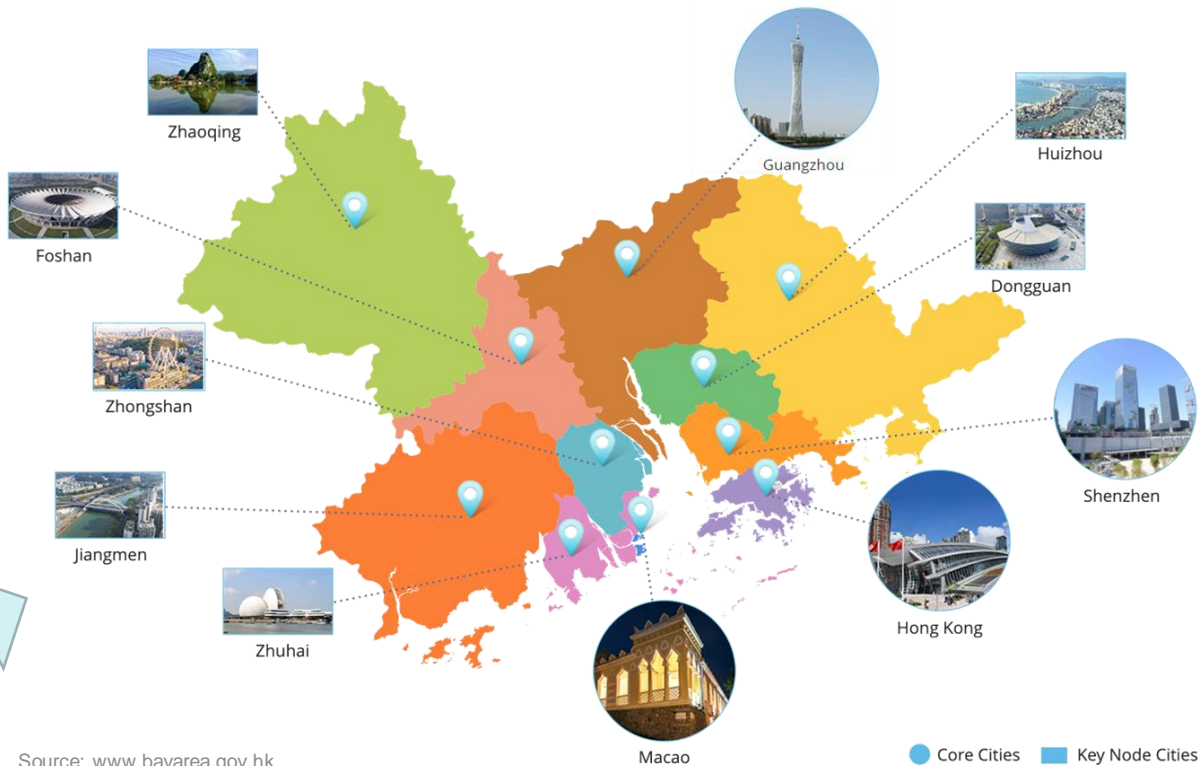
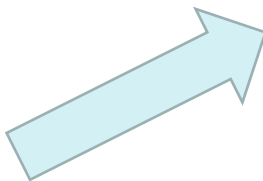
56,000 km²
Area



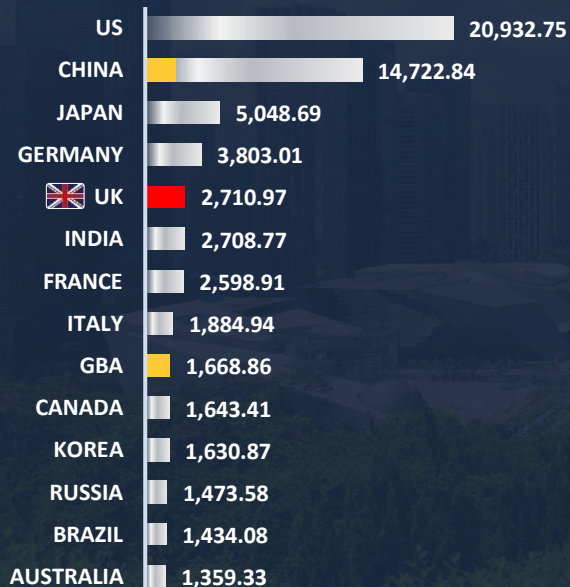
\$1,679.5bn
GDP



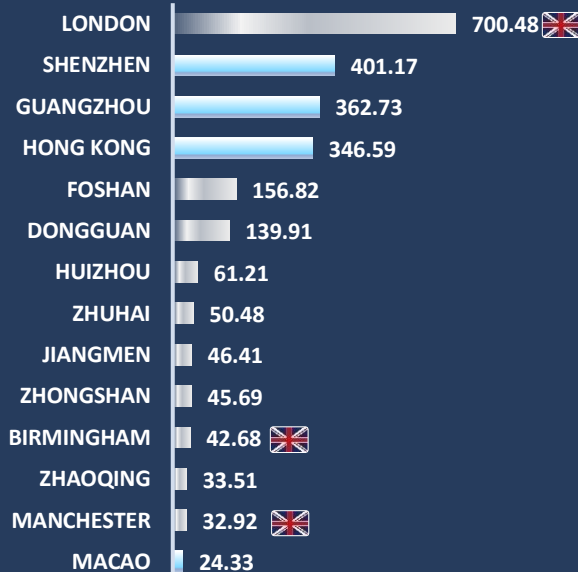
\$23,371
GDP per capita



2020 GDP of World's Largest Countries (US\$ bn)



2020* GDP of GBA Cities (US\$ bn)



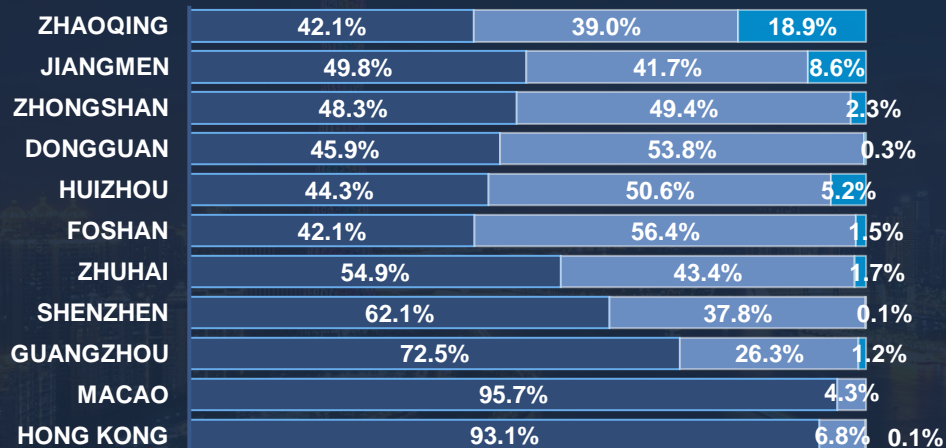
Comparison of the World's Top Container Ports 2020 (TEU 000')



*GDP data of London is from the year 2019; GDP data of Birmingham and Manchester are from the year 2018.

2020* Industrial Structure of GBA Cities

Services Manufacturing Agriculture

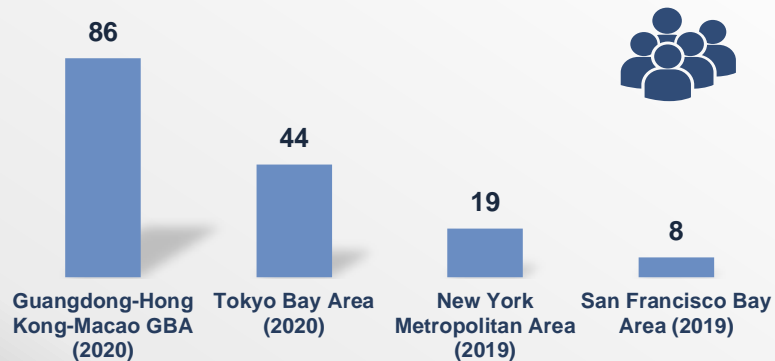


*2020 Data of Hong Kong and Macao are not published yet.
Hence the data of 2019 of both are used here.

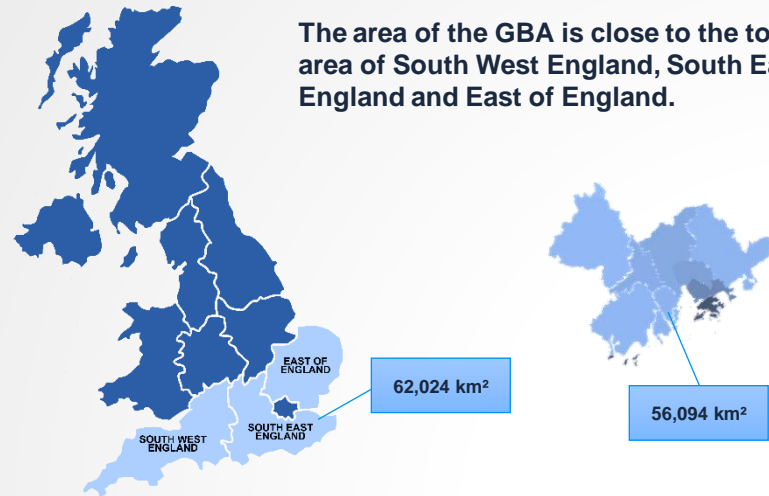
2020 Export Volume of GBA Cities (US\$ bn)



With a population of 86M, the GBA makes up over 6% of the total population in China and would rank as the 17th largest country.



The area of the GBA is close to the total area of South West England, South East England and East of England.



2020 World's Largest countries by Population (Million Persons)

Industrial Structure (% of GDP) of GBA Cities in Mainland China

- **Primary industry:** agriculture, forestry, animal husbandry, fishery
- **Secondary Industry:** industrial and construction
- **Tertiary industry:** service industry



Shenzhen

Primary Industry: 0.1% of GDP
Secondary Industry: 39% of GDP
Tertiary Industry: 60.9% of GDP



Guangzhou

Primary Industry: 1.1% of GDP
Secondary Industry: 27.3% of GDP
Tertiary Industry: 71.6% of GDP



Foshan

- High Tech enterprise: up to **500K RMB**
- Technical transformation of fixed assets subsidy: up to 5% of the investment on fixed assets transformation
- Manufacturing Industry Innovation Center Support: up to **20 million RMB**
- Applicable industry: Equipment manufacturing, pan-home, automotive and new energy, civil-military integration and electronic information, intelligent manufacturing equipment and robots, new materials, food and beverage, biomedicine and health
- **Small and Micro size enterprise employment subsidy:** social insurance for the employees who are new graduates within 2 years, with employment contract for more than 1 year.

Dongguan



Zhuhai

Jiangmen

Zhongshan

Zhaoqing

- Quality Award Incentive: Up to **1 million RMB** Manufacturing, service, construction enterprises;
- Technical Equipment Transformation Incentive: up to 10% of the total investment on equipment transformation, maximum **5 million RMB**.
- Financial Lease Incentive: up to **1 million RMB**
- SME Growth Incentive: up to **50K RMB** (50% of costs on lease or equipment purchase)

DG

- IT industry, Healthcare and Pharmaceutical industry, high-end equipment manufacturing industry, etc.
- Incentives: including but not limited to subsidies for project landing, fixed asset investment, transitional rent, equity investment, financing, technological transformation, standardized management, core equipment usage, business contribution awards, mergers and restructure, etc. up to **10 million RMB**.

ZS



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02 Free Trade Zone



Measures

- Tax preference
- Special Customs supervision policies
- Further open-up for FDI



FTZ in Guangdong

- Since April 2015
- Includes Guangzhou Nansha Area, Shenzhen Qianhai & Shekou Area, Zhuhai Hengqin Area.



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Shenzhen Qianhai & Shekou Area – Access List

Companies of only 6 industries are allowed to access the Area:



Financial industry

(e.g. venture capital fund; banking)



Modern logistics

(e.g. supply chain management; international shipping)



Information service

(e.g. E-commerce; software service platform)



Technology service

(e.g. technology R&D service; quality certification, inspection service)



Professional service

(e.g. accounting, auditing service; design service; IPR service)



Public service

(e.g. technology development of environment protection, energy conservation)

Additional Requirements

A virtual address agreement must be signed with the Qianhai Area management authority.

Registered capital no longer needs to be RMB 5 mil. No minimum capital needed.

Tax Incentives/Government Subsidies In Shenzhen

Qianhai Free Trade Zone

Companies registered in Qianhai Shenzhen-Hongkong Modern Service Industry Cooperation Zone ("Qianhai FTZ") enjoy corporate tax rate of 15% if listed in the Preferential Catalogue of Qianhai.

The income from preferential industries must constitute more than 70% of the total income of qualified companies.

This preferential policy shall be valid until December 31, 2021.



Tax Incentives/government subsidies in Shenzhen

Modern Logistics

- Supply Chain Management Services like Supply Chain solution design, order management and execution, virtual manufacturing, information management, consulting services, etc.
- Onshore and offshore logistics outsourcing service;
- Development and operation of modern logistics technology and logistics public service system;
- Settlement and management of third-party logistics

Science and Technology Service Industry

- Professional technology services in different industries, including new energy, advanced materials, biological medicine and low-carbon environmental protection, etc.
- Research, development and service of emerging science and technology like gene sequencing, stem cells, functional protein, life health, etc.
- Research, development and service of new energy battery, three-dimensional display and print technology;
- Advanced technology service of information technology outsourcing, business process outsourcing, knowledge process outsourcing, etc.

Corporate Income Tax Preferential Catalogue in Qianhai Qianhai FTZ



Tax Incentives/government subsidies in Shenzhen

Information Service Industry

- Telecom value-added business application system development;
- Technology development of electronic authentication, e-commerce and e-government affairs;
- Information security technology research and development services;
- Data mining, data analyzing, data service and digital resources development;
- Research and development on a new generation of mobile communication network, the next generation of Internet technology based on IPv6;
- Research and development on satellite communication technology ;
- Research, development and service of General software, industry application software, embedded software;
- Research, development and service of cloud computing, the Internet of things, trustworthy computing, intelligent network, big data, etc.

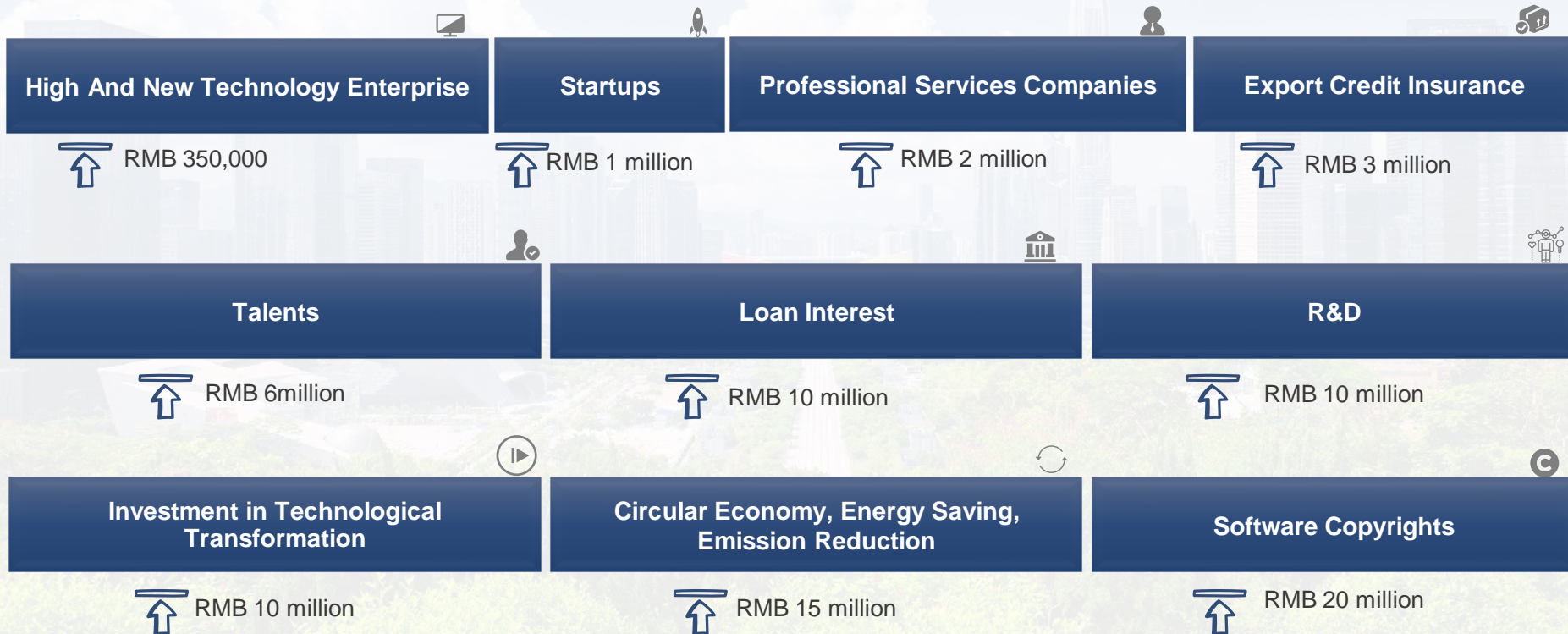
Cultural Creative Industry

- Creative design services in graphic design, package design, advertising design, interior design, landscape design, industrial design, costume design, etc.
- Cultural information resources development;
- Research, development and service on network audio-visual program;
- Development and creation of animation and online games ;
- Research, development and service of new media technology.

Corporate Income Tax Preferential Catalogue Qianhai FTZ



Government Subsidy in Shenzhen (non-exhaustive list)



Hengqin (Zhuhai) can offer you the following advantages:



- Administration of bonded or tax-exempt production-related goods entering Hengqin from abroad; (which eases import/export and e-commerce)

- Transactions among enterprises located within the Hengqin FTZ are exempted from any value-added and/or consumption tax.

- Clearance procedures for residents of Hong Kong and Macao entering and leaving Hengqin are simplified, with 24-hour passage at the Hengqin Checkpoint.

- Certain talents from outside mainland China will be entitled to a financial subsidy equal to the amount of individual income tax (IIT) payable in Zhuhai in excess of 15% of their taxable income. This subsidy will be exempt from any IIT obligation.

- Production-related goods sold from areas of the Chinese mainland to Hengqin are treated as exports and enjoy tax refunds.

- Hong Kong/Macao residents working in Hengqin receive the appropriate China Individual Income Tax (IIT) deduction from the Guangdong Provincial Government so that their effective China IIT burden would be close to what they would pay if they instead had been working where they are domiciled.

- Administrative regulations have been issued for Macao vehicles with single license plates (to be operated exclusively within Hengqin).

Guangzhou Subsidies for Enterprises R&D Expenditure

The Guangzhou Municipal Science and Technology Bureau offers a series of subsidies (**from 100,000 RMB to 20 million RMB**) to local enterprises for their R&D expenditure. The subsidies are aimed at simulating more sustained R&D investments by local actors, so to reach the municipality's development target of **3% R&D intensity on local GDP**.

Eligibility requirements:

- Enterprise with independent legal personality in Guangzhou;
- R&D expenses exceeding 2% of annual operational revenue (and at least exceeding 2 million RMB);
- Has already registered the R&D expenditure with local tax authorities.

What are the benefits?

Post-expenditure subsidies:

- 100,000 RMB for R&D expenditure > 2 million RMB but < 5 million RMB
- 400,000 RMB for R&D expenditure > 5 million RMB but < 10 million RMB
- 1 million RMB for R&D expenditure > 10 million RMB but < 50 million RMB
- 3 million RMB for R&D expenditure > 50 million RMB but < 100 million RMB
- 7 million RMB for R&D expenditure > 100 million RMB but < 500 million RMB
- 20 million RMB for R&D expenditure > 500 million RMB

Similar subsidies exist for : *Universities & Research institutes + Industry*

Universities & Research institutes + International cooperation

Other policies include:

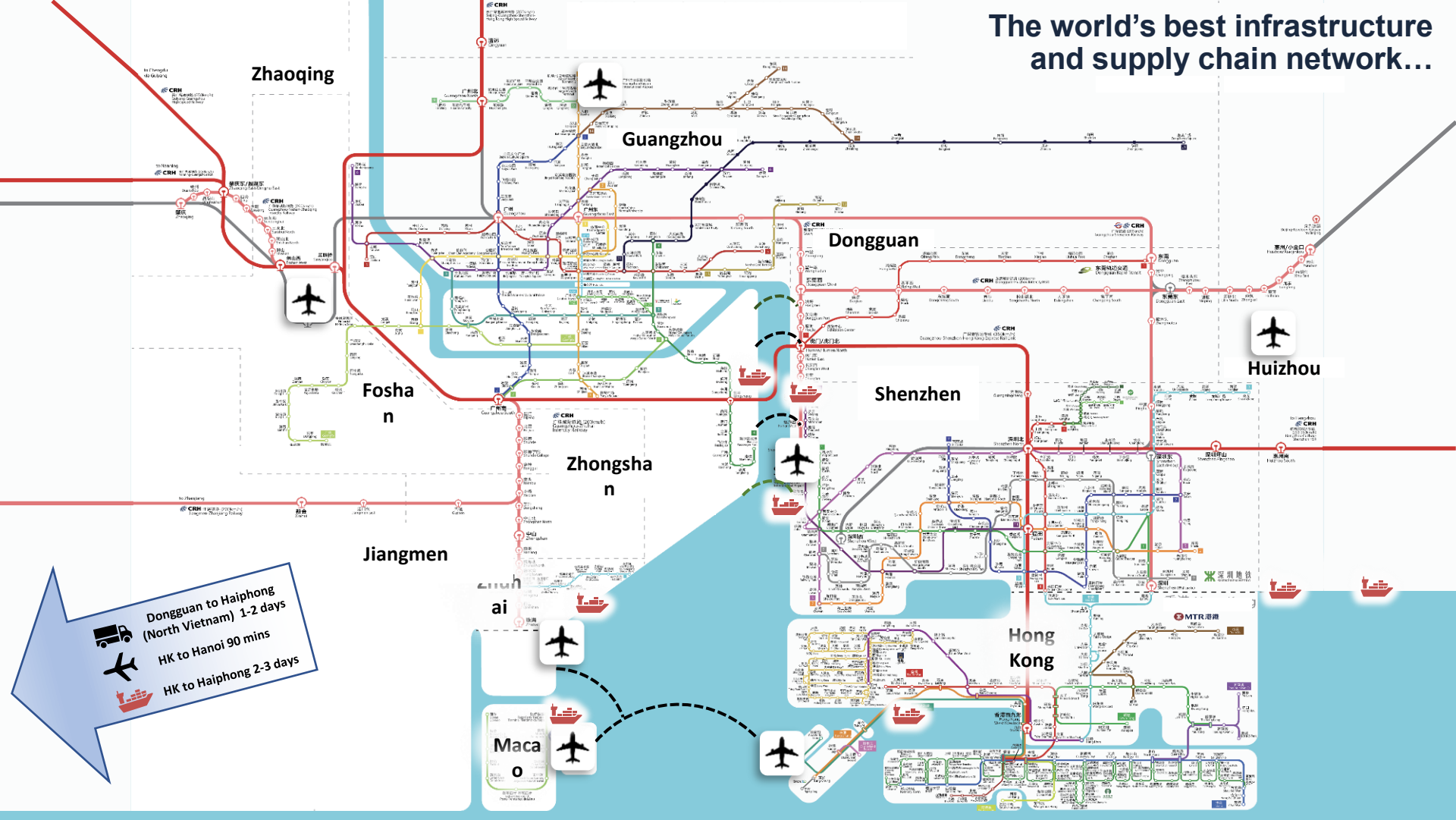
- The city is attracting young Hong Kongers by offering generous subsidies on business costs (rent, Etc), access to trade officials and a favorable environment to raise capital
- The Guangzhou government has been at the forefront of establishing incubation hubs for young entrepreneurs from Hong Kong, Macau and Taiwan
- In December 2020, the Nansha regions officially released **"20 Measures for Gathering International Talents in Guangzhou Nansha New Area "**, **which includes the following:**

- Resettlement subsidy up to 5 million Yuan;
 - Housing rent support;
- Many new job positions being posted in the area.

General Advantages of the Area are:

- Financial innovation
- Custom clearance convenience
- Cross-border e-commerce
- Enterprise registration

The world's best infrastructure and supply chain network...





Foshan

Sanitary

F&B

Dongguan

Environment



Brands & Products



Automotive

EV Battery

Education

Medical

Energy

Sports

Biotech

Robotics

Services

Logistics

Culture & Creativity

Healthcare & Elderly care

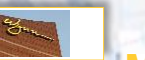


Zhongshan



Gaming & Entertainment

Zhuhai



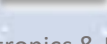
Macao



Jiangmen

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ANKER



AI and Big Data

Shenzhen



Assets + Wealth Management

Fintech

Green Tech & ESG

Hong Kong



Financial Services

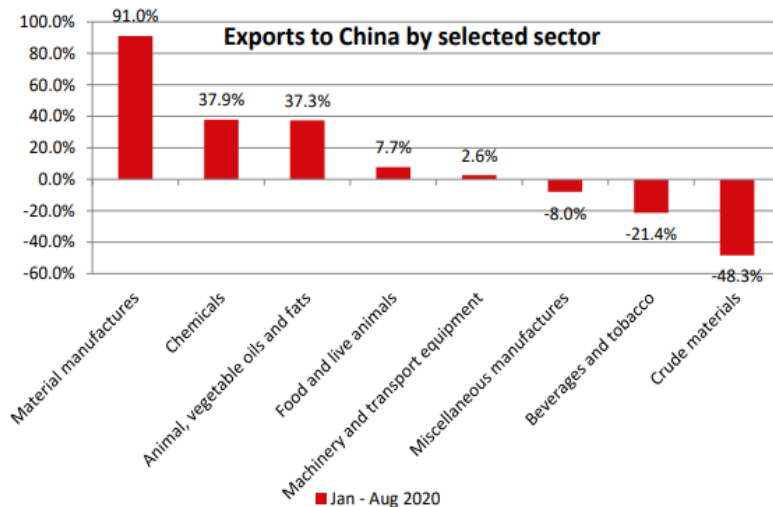
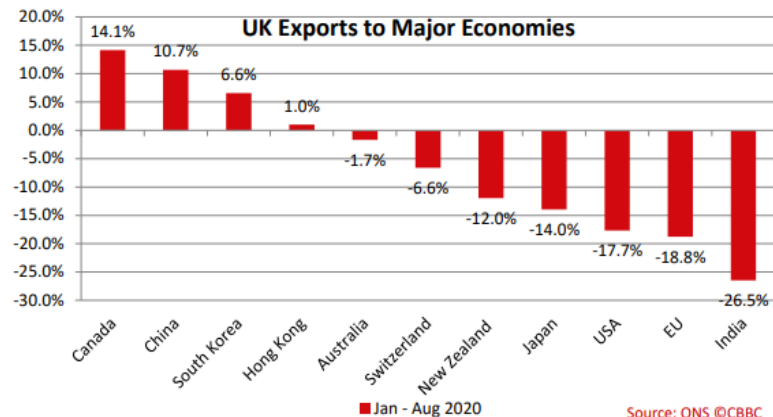
Insurance





Trade Balance: British Exports to China

China remains the principal driver of UK exports in 2020



Agenda

Section 2:

Cost Contention and Lean Management Strategies for SMEs in China

□ Presented by Guilherme Campos



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Cost Contention and Lean Management Strategies for SMEs in China

One of the biggest problems foreign companies face in china is **increasing cost of doing business**.

What is the solution?

What is Cost Management?

Cost control?

Cost Reduction?



How to achieve this and maintain or **IMPROVE** the quality of your operation?

Cost Contention and Lean Management Strategies for SMEs in China

Strategies:



IT

1. Optimize your China Accounting System (erp) to improve the efficiency of your company.
2. Digitalize everything as much as possible 'Digital expense management'
3. Improve your HR and payroll management



HR

Keep your structure lean as far as headcount goes. Remember that the highest fixed costs in companies, are normally HR related.

Corporate Sustainability

A concept that is an evolution of Corporate social responsibility, with a focus on environmental friendly practices.



Other Strategies: Relocate your Business

Where to relocate your business?

What are the considerations (risks) to have?

Tax

HR

Legal

To select a good location, its important to remember the [6 Commandments](#)

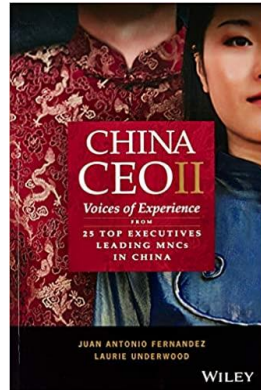
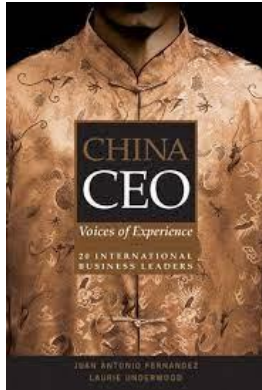
Cost Metrics
Supply Chain
Connectivity
Work Force
Legal Environment
Incentives

Other Personal Strategy Considerations - CHINA CEO



Qualities:

1. HUMILITY AND CULTURAL SENSITIVITY
2. RESPECT FOR FACE AND GUANXI
3. FLEXIBILITY WITH FIRMNESS ()
4. Long - term china commitment
5. Mandarin language skills



Mistakes:

1. Not adapting to china
2. Keeping a distance
3. Underestimating the complexity of china



Agenda

Section 3:

Labour & Social Security Law and Talent Acquisition Matters

□ Presented by Mosley Li and Karen Huang



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RESCISSION AND TERMINATION OF LABOUR CONTRACTS

Negotiation between both parties

Employee notify employer with a 30-day advance notice in writing to rescind his/her labor contract

Employer notify employee with a 30-day advance notice in writing and one month's wage to rescind the labor contract

Other situations

Minefields in the HR perspective



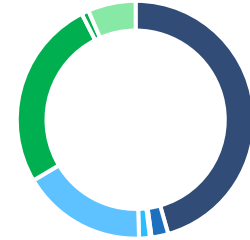
- Dismiss employees without severance
- Non-renewal upon the contract expiration date
- Forgot to sign labor contract
- Signing the 3rd fixed term labor contract
- Probation period again

Social Insurance

Article 12

- Contributing entities and individuals must pay their social insurance premiums in cash and in full.
- The social insurance premiums payable by contributing individuals shall be withheld from their wages and paid for them by their entities.
- Social insurance premiums may not be reduced or exempted.

SI contribution



- Pension-ER
- Un-employment-ER
- Injury-ER
- Maternity-ER
- Medical-ER
- Pension-EE
- Un-employment-EE
- Medical-EE

Housing Fund



ER portion + EE portion

Calculation formula:

**Last Year's average monthly salary*
percentage**



Article 20:

An employer shall pay and deposit housing provident fund on schedule and in full, and may not be overdue in the contribution or underpay the housing provident fund.

Common Issues Related To Social Welfare

**Picking insurance
categories**

**Expatriates with no
social welfare**

**Choosing social
welfare base**

**Late social welfare
contribution**

**Employee choose to
not enroll in social
welfare system
voluntarily**

Lack of Talents



SME's concerns and difficulties:

SME's image has not been recognized in China.

Lack of professional HR team and recruiting channel.

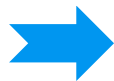
Foreign-invested SMEs are not familiar with local market.

Can't identify candidate's qualification.

Travel restrictions.



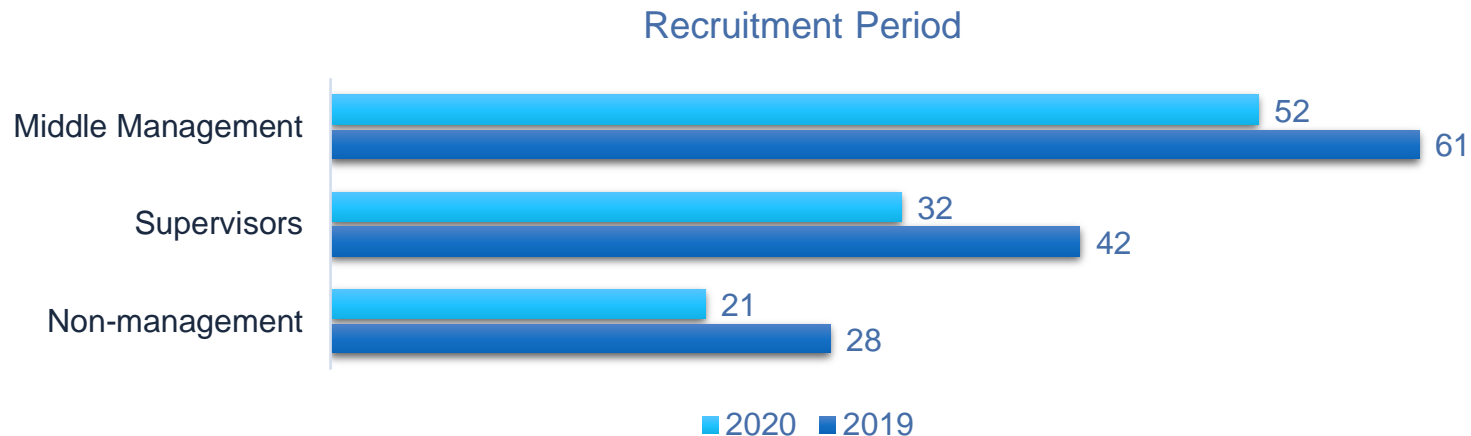
Recruitment Efficiency



Visible Cost: maintaining recruitment channel, headhunting, HR's salaries, fixed expenses...



Invisible Cost: time cost, risk cost...



*Sources: Original data is from 51 job. Data label for chart refers to the amount of days required.



Attracting Talents

Local Preferential Policies

- IIT Subsidies in Greater Bay Area: China has rolled out [income tax incentives](#) to lure outstanding overseas talents to work in the Guangdong-Hongkong-Macau Bay Area (GBA).
- To attract Chinese talents, Hukou and local incentives are workable.

Welfares

- [Social insurance](#), [housing fund](#), commercial insurance, supplement pension, supplement housing fund, [accommodation](#), allowance, bonus, health examination, team build, full paid additional annual leave, full paid sick leave, flexible [working hours](#), paid overtime and so on.

Enhance Company's Brand

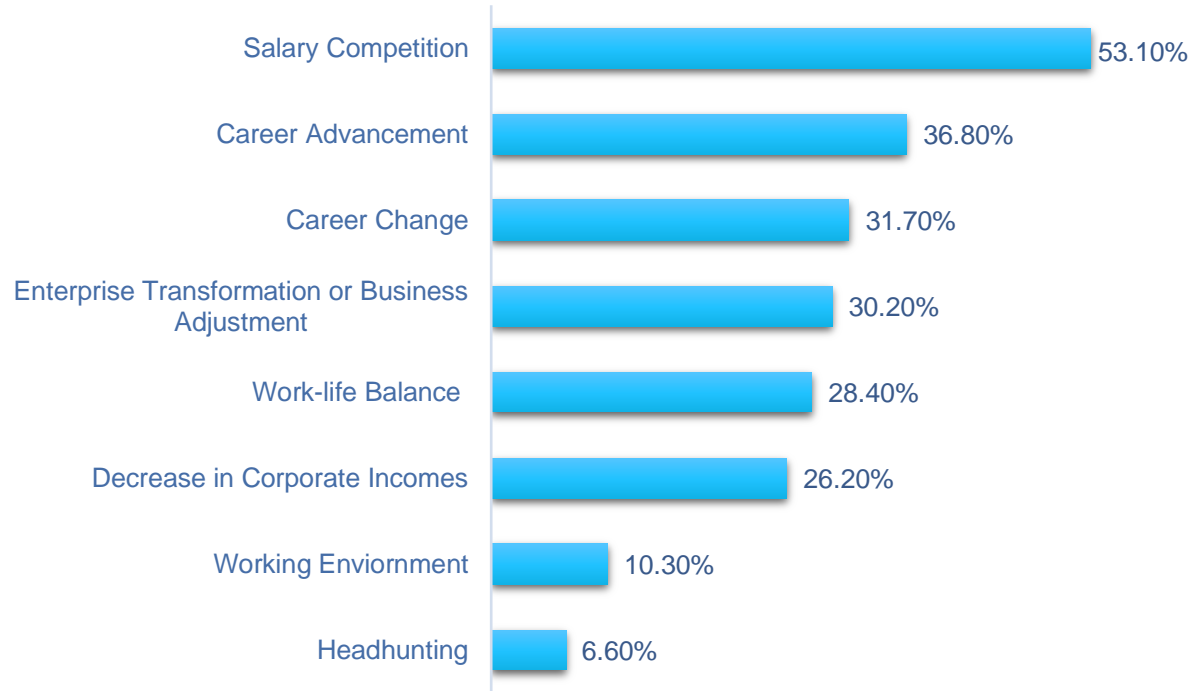
- Enhance the recruiter's quality and skill.
- Dig candidate's preferred communication platform and advertise.

Sources: Article *IIT Subsidies in the Greater Bay Area: How Much Can be Saved* is from Dezan Shira & Associates.

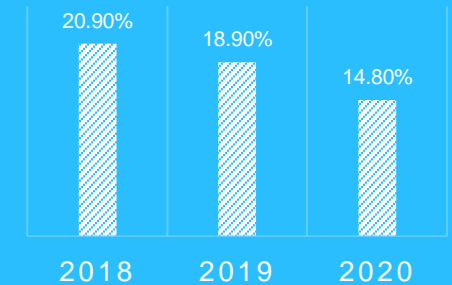


Retaining and Developing Talents

Reasons for Leaving



TURNOVER RATE



Retaining and Developing Talents

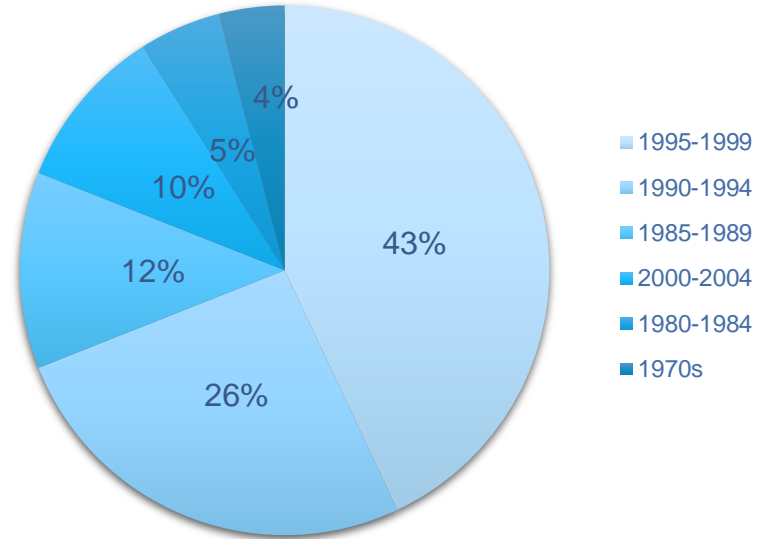
Job-hopping Tendency

- The average service month of first job for talents who born after 1995 is 15 months.
- Young people tend to change job.

Methods:

- Training: job skills and soft skills;
- Salary Adjustment (5.9% for 2019, 4.7% for 2020, estimated 5.1% for 2021);
- Career Advancement;
- Build Company Culture;
- Welfares.

Job-hopping



Sources: Job-hopping and average service month data is from Boss Zhipin Research.
Salary adjustment data is from 51 job. Data label for chart refers to year of birth.





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