



April 2016

## Pearl River Delta: Factbook



## **Disclaimer**

# **Important notice and forward-looking statements**

### **Important notice**

The information set out in this presentation and subsequent discussion does not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any recommendation in respect of such securities or instruments.

### **Forward-looking statements**

This presentation and subsequent discussion may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position and business of the Group (together, “forward-looking statements”). Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant assumptions and subjective judgements which may or may not prove to be correct and there can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. Forward-looking statements are statements about the future and are inherently uncertain and generally based on stated or implied assumptions. The assumptions may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market conditions or regulatory changes). Any such forward-looking statements are based on the beliefs, expectations and opinions of the Group at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update them if circumstances or management’s beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our 2015 Annual Report and Accounts.

This presentation contains non-GAAP financial information. The primary non-GAAP financial measure we use is ‘adjusted performance’ which is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons. Significant items are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business. Reconciliations between non-GAAP financial measurements and the most directly comparable measures under GAAP are provided in the 2015 Annual Report and Accounts and the Reconciliations of Non-GAAP Financial Measures document which are both available at [www.hsbc.com](http://www.hsbc.com).

# Contents

I	PRD Overview	Page 4
II	PRD Opportunities	Page 15
III	HSBC in PRD	Page 20
IV	HSBC Customers	Page 24
V	Appendix	Page 28

# PRD Overview

# HSBC Investor and Analyst Roadshow to the PRD (11-13 April 2016)

## Route map



## Guangdong in numbers

**100m+** population, majority speaks Cantonese (same dialect used in Hong Kong)<sup>1</sup>

**11%** of China's GDP – largest provincial economy for 26 consecutive years<sup>1</sup>

Pearl River Delta (PRD)'s GDP grew at c. **17%** CAGR for the past decade<sup>1</sup>

**26%** of China's trade – largest export base in China<sup>1</sup>

**48 mins** to travel from Hong Kong to Guangzhou when high speed rail is completed<sup>2</sup>

Shenzhen and Hong Kong are the world's **#3** and **#4** busiest container ports<sup>3</sup>

Shenzhen Stock Exchange's market cap ranks **#8** globally, and would rank **#3** if combined with HKEx<sup>4</sup>

PRD and Hong Kong combined would rank as the world's largest banking city cluster by 2025, with revenue opportunities totalling **USD185bn**<sup>5</sup>

HSBC has presence in **all 21** prefecture-level cities of Guangdong, the only international bank with this network

1. Sources: Statistics Bureau of Guangdong Province, National Bureau of Statistics PRC

2. Source: "The Greater Pearl River – 7th Edition" – Invest Hong Kong

3. Source: World Shipping Council

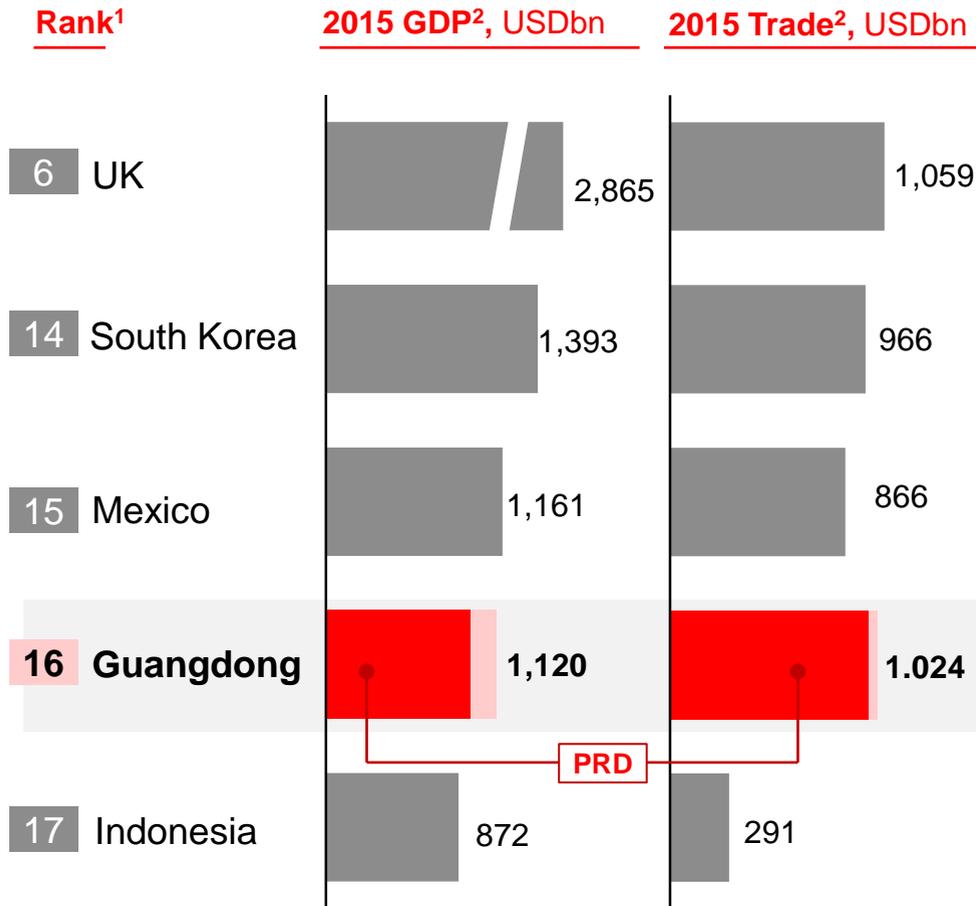
4. Source: WFE

5. Source: HSBC

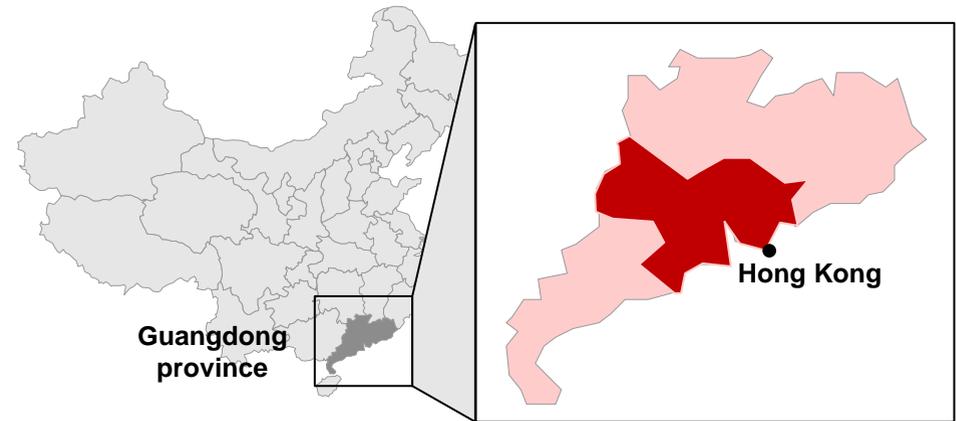
## PRD Overview

The Pearl River Delta corresponds in size to a leading global economy, in close proximity to Hong Kong

### PRD already a leading global economy

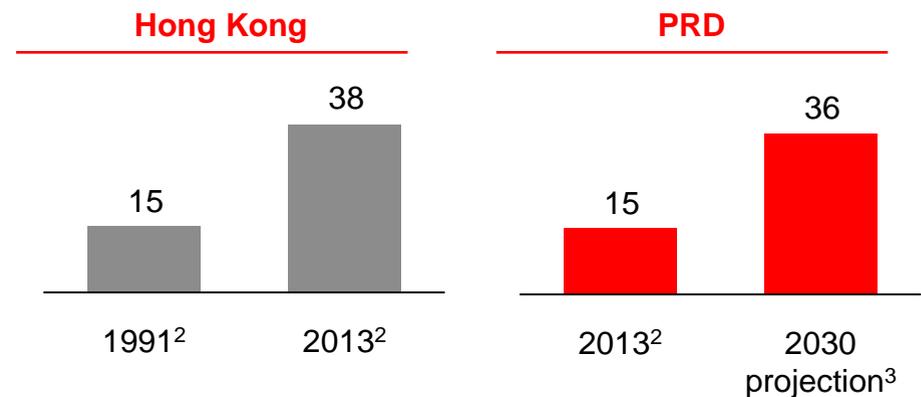


### ... in close proximity to Hong Kong



### with significant potential for growth and wealth creation

GDP per capita, USD'000



1. Rank of country by GDP

2. Sources: Global Insights, IMF estimates (2015 countries GDP); CEIC (2015 Guangdong GDP); CIA World Factbook estimates (2015 countries Trade); Department of Commerce of Guangdong Province (2015 Guangdong Trade)

3. Source: Planning study on the coordinated development of the Greater Pearl River Delta Townships, 2009

# Rapid economic growth has closed the gap between Guangdong and Hong Kong

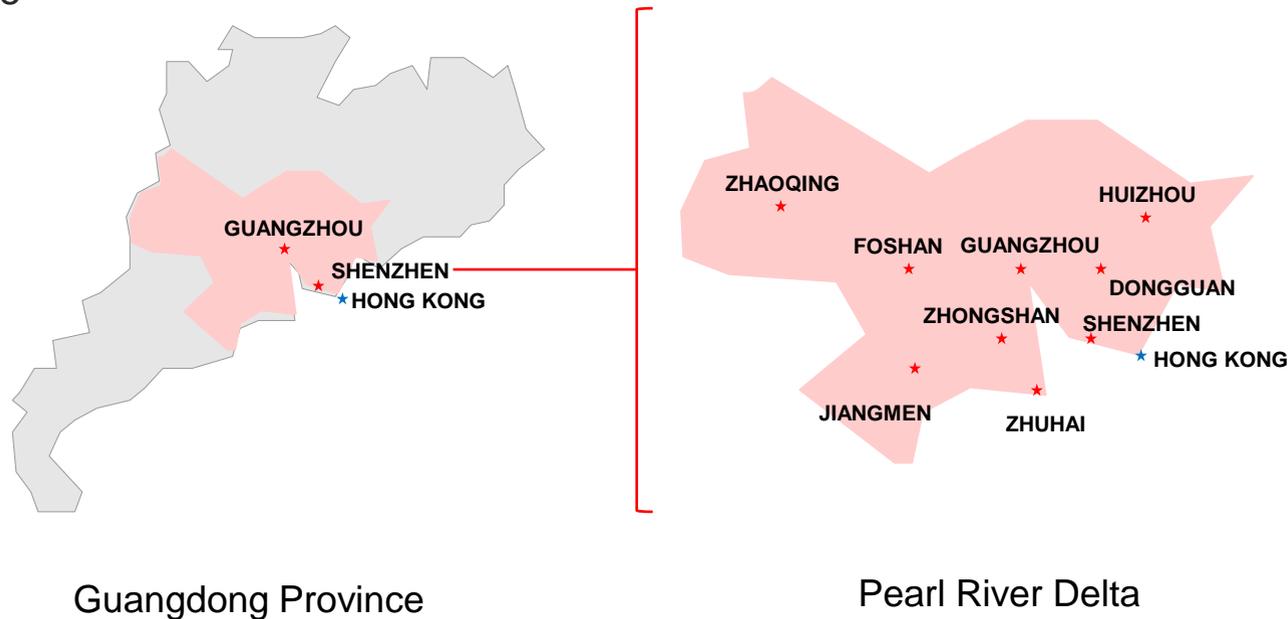
## Key metrics (2014)<sup>1</sup>

	<u>Population</u> m	<u>GDP growth</u> 2011-14, CAGR %	<u>GDP / capita</u> USDk	<u>Trade</u> USDbn	<u>Deposits</u> USDbn	<u>Land area</u> sq.km
Hong Kong	7	5	40	1,012	1,291	1,104
Guangdong	107	8	10.4	1,077	2,090	179,770
PRD	58	10	16.4	1,029	1,811	54,744
Shenzhen	11	12	24.4	488	610	1,953
Guangzhou	13	10	21.0	131	580	7,434
Zhuhai	2	10	19.0	55	75	1,688
Foshan	7	6	16.6	69	184	3,848
Zhongshan	3	9	14.5	37	68	1,800
Dongguan	8	7	11.5	162	152	2,465
Huizhou	5	13	10.4	59	55	11,158
Jiangmen	5	4	7.6	20	59	9,541
Zhaoqing	4	12	7.5	8	27	14,856

1. Sources: Guangdong Statistical Yearbook, Census and Statistics Department of Hong Kong. PRD cities ranked by GDP per capita

# Pearl River Delta as the engine of growth for Guangdong and China

- Pearl River Delta (PRD) is a sub-region of the Guangdong Province:
  - 9 cities (out of 21 prefecture-level cities in Guangdong) including 2 of the 4 Tier 1<sup>1</sup> cities - Guangzhou and Shenzhen
  - Pioneering role in China’s “reform and open-door policy”<sup>2</sup> launched in 1978
  - Home to 2 of the first 4 Special Economic Zones<sup>3</sup> established in 1980s – Shenzhen and Zhuhai, to attract foreign investment and international talent
  - Proximity to Hong Kong and Macau, jointly built an export-oriented economic zone and high-tech innovation zone



1. Refer to Appendix 1 for more information regarding China city tiers

2. Deng Xiaoping initiated the transformation of China's economy and introduced the “reform and open-door” policy in December 1978. “Reform” policy was aimed to lift government control and develop a more market-oriented economy and “open-door” policy was to build economic connection with other countries, to promote trade and foreign investment

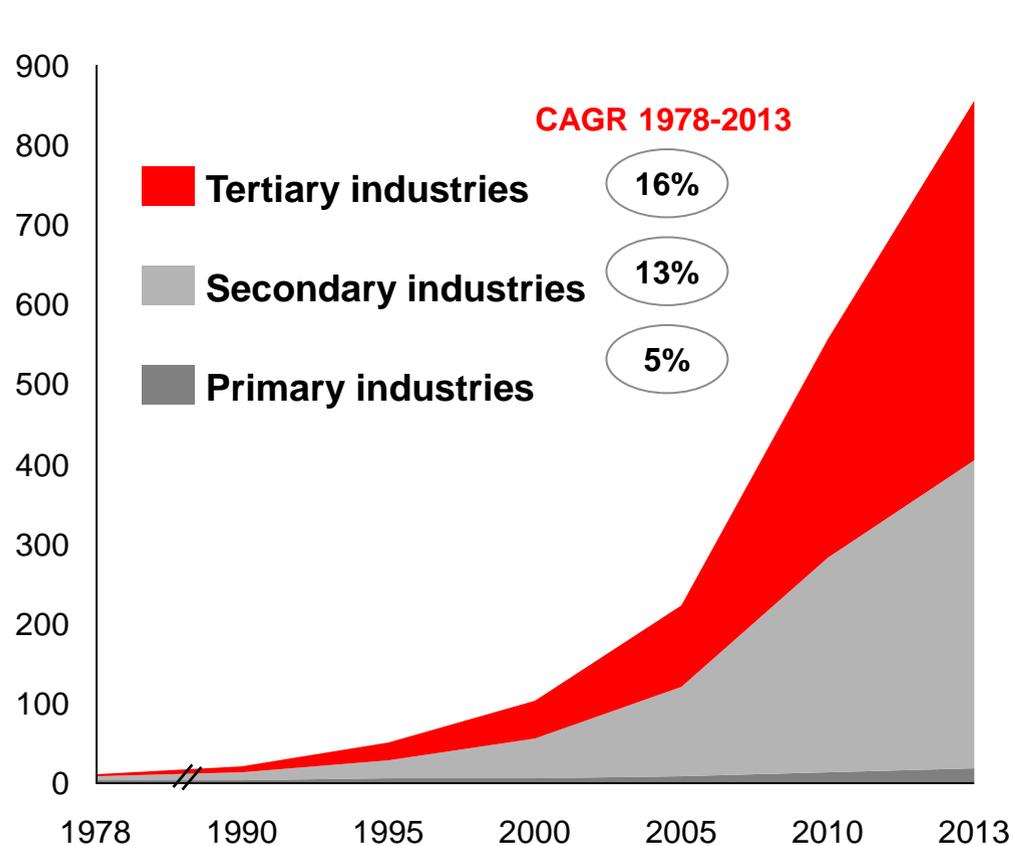
3. Refer to Appendix 2 for more information regarding China Special Economic Zones

## PRD Overview

Significant transformation since the “reform and open-door policy” introduced in late 1970s

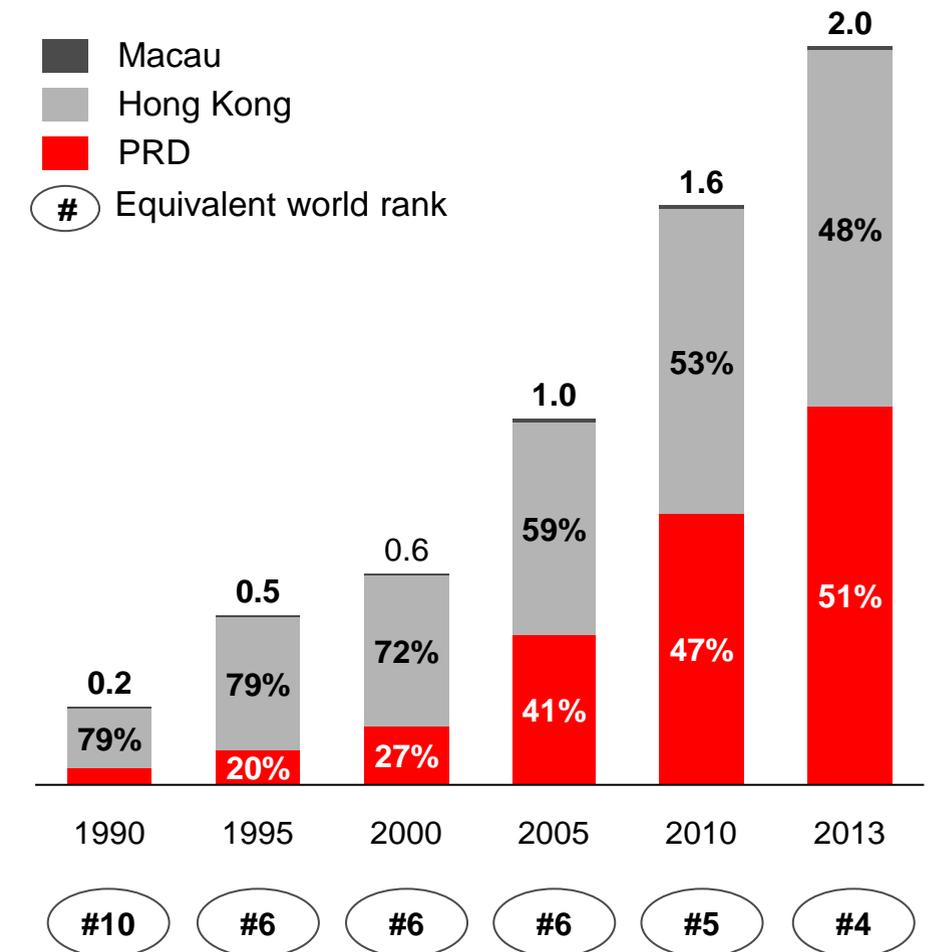
### PRD's GDP (1978-2013)<sup>1</sup>

USDbn



### Trade in Greater PRD (including HK and Macau)<sup>2</sup>

USDtrn



1. Source: National Bureau of Statistics PRC

2. Source: "The Greater Pearl River – 7th Edition" – Invest Hong Kong

# Internationally competitive industries underpinning regional growth

## Key areas of competitiveness of PRD<sup>1</sup>

<b>Manufacturing</b>	<ul style="list-style-type: none"> <li>Highly competitive light manufacturing and technology-based manufacturing</li> <li>Leading locations for assembling manufacturing of high-tech electronics products</li> </ul>
<b>Transportation</b>	<ul style="list-style-type: none"> <li>One of the largest markets for sea and air cargo services globally, driven by status as the world's leading manufacturing and export base</li> </ul>
<b>Trade-related services</b>	<ul style="list-style-type: none"> <li>Greater PRD a major centre for trade-related services for the Mainland                             <ul style="list-style-type: none"> <li>e.g. trading, sourcing, freight-forwarding, logistics, etc</li> <li>Magnet to the buying and sourcing offices of multinational enterprises</li> </ul> </li> </ul>
<b>Digital / Innovation</b>	<ul style="list-style-type: none"> <li>Shenzhen: "China's Silicon Valley"                             <ul style="list-style-type: none"> <li>Ambition as global innovation hub</li> <li>5 out of 6 Chinese enterprises in the global top 50 for patent cooperation treaty patent applications based in Shenzhen</li> <li>Examples: Tencent, Huawei, ZTE</li> </ul> </li> </ul>

## Value added by Tertiary Industries in Guangdong, USDbn<sup>2</sup>

	2005	2010	2012	Annual Growth (2005-12) <sup>*</sup>
<b>Gross Domestic Product</b>	273.04	679.71	904.05	14.3%
<b>Tertiary Industry</b>	117.17	305.96	420.12	15.6%
Wholesale and Retail Trade	27.13	68.66	100.34	16.1% <b>4</b>
Real Estate	17.77	41.57	57.73	14.0%
Finance	8.23	39.28	50.25	24.8% <b>1</b>
Transport, Storage and Postal Services	12.10	26.96	37.50	13.3%
Leasing and Business Services	9.44	23.09	33.77	15.6%
Information Transmission, Computer Services and Software	8.40	20.27	25.63	13.0%
Public Administration and Social Organisations	7.72	20.15	25.92	14.6%
Education	6.43	15.69	21.91	14.8%
Accommodation and Catering Services	6.36	15.88	20.72	14.1%
Services to Households and Other Services	4.21	10.77	14.19	14.6%
Healthcare, Social Security and Social Welfare	3.56	9.45	13.53	16.6% <b>2</b>
Scientific Research, Technical Services and Geological Prospecting	2.55	7.15	9.47	16.2% <b>3</b>
Culture, Sports and Recreation	1.81	4.18	5.23	12.1%
Management of Water Conservancy, Environment and Public Facilities	1.48	2.87	3.93	10.8%

1. Source: HKSAR website

2. Source: "The Greater Pearl River – 7th Edition" – Invest Hong Kong

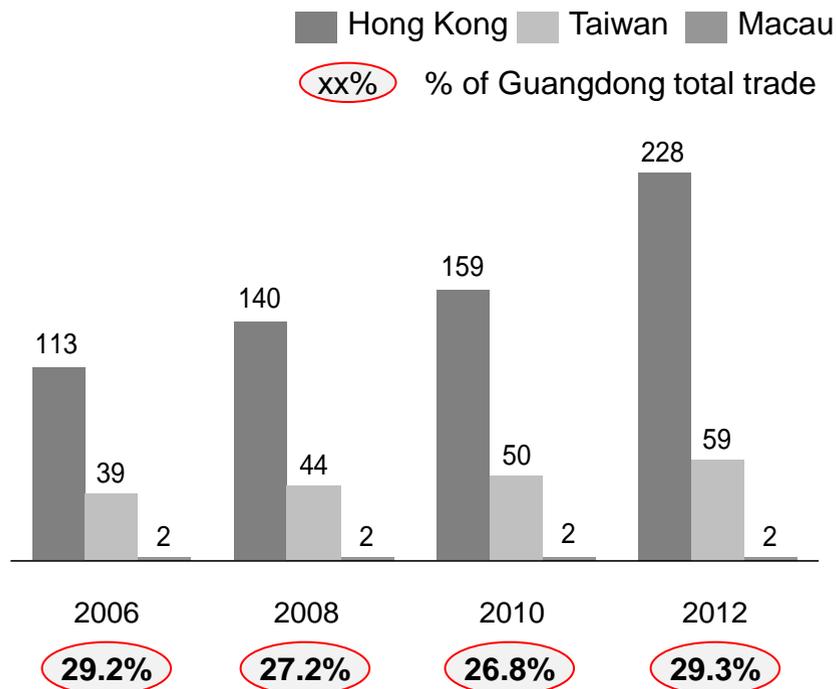
<sup>\*</sup>Growth rates are based on the nominal renminbi values of tertiary outputs.

## PRD Overview

# Guangdong has strong linkages with Hong Kong and Taiwan, active trade with Asia and the US

- Close economic and transportation link with Greater China – with Hong Kong being the key driver
- Trade: Hong Kong as top trade partner, contributing 22% of Guangdong's 2014 total trade
  - Others including US (11%), ASEAN (10%), South Korea (7%), Taiwan (6%) and Japan (6%)
- FDI: Hong Kong is the primary investment source of Guangdong - over 60% of Guangdong's 2014 FDI
- Industries: Enterprises owned by Hong Kong/Taiwan/Macau contributed to 23% of Guangdong 2014 total gross output value; enterprises owned by foreign investment contributed 28%

### Guangdong's trade with HK, Taiwan and Macau



Source: Statistics Bureau of Guangdong Province

### HK, Taiwan and Macau-owned companies in PRD

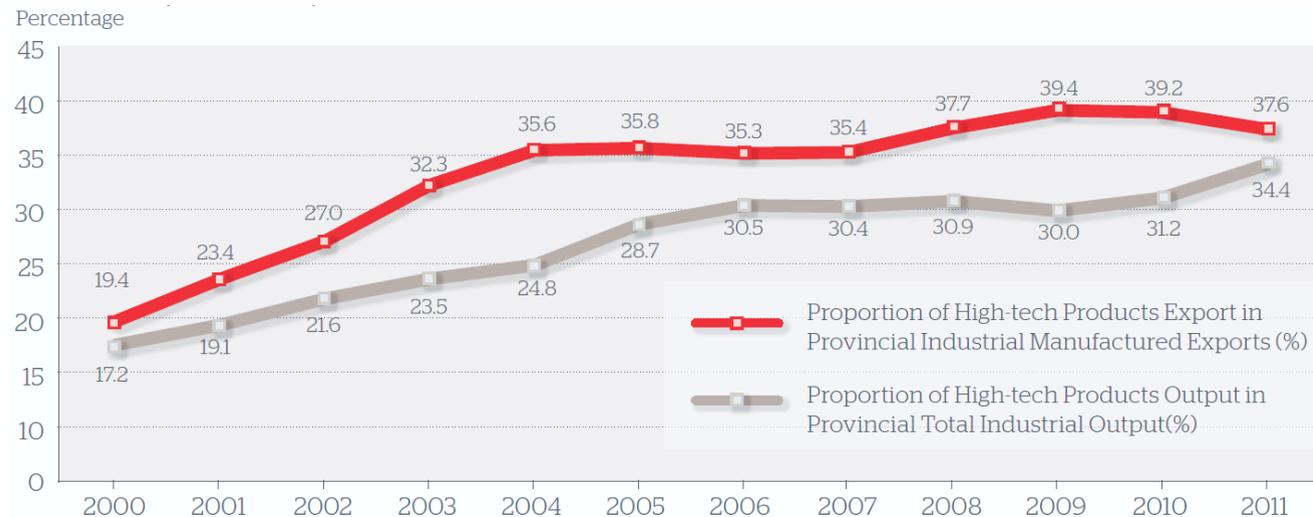
Prefecture	Number of units	% of Guangdong	Key industries, (example of companies)
Shenzhen	12,551	30.1%	Electronics (Foxconn)
Dongguan	8,709	20.9%	Electronics, garments, food processing (Lung Cheong, Hsu Fu Chi)
Guangzhou	5,224	12.5%	Autos, transport equipment, electronics
Huizhou	3,202	7.7%	Garment (Glorious Sun)
Foshan	2,247	5.4%	Electronics and home appliance
Zhuhai	2,087	5.0%	Electronics
Zhongshan	1,943	4.7%	Home appliance, food and beverage
Jiangmen	1,798	4.3%	Manufacturing (Leo Paper Group)
Zhaoqing	547	1.3%	Metal, auto parts
PRD Total	38,308	91.8%	-

## PRD Overview

# From processing trade-oriented manufacturing clusters into a high-technology-oriented exporting region

- PRD now known as a hi-tech innovation centre due to its successful transformation from a processing trade manufacturer
- “Pearl River Delta National Independent Innovative Demonstration Zone (PRD NIIDZ)” – approved by the State Council in November 2015 as the first and only region-wide NIIDZ
- Guangdong has formulated “Intelligent Manufacturing Development Plan: 2015-2025” to develop more innovate and advanced industries

## Outputs and Exports of High-Technology Products in Guangdong<sup>1</sup>



## Cluster development plan by PRD city<sup>2</sup>

City	Develop new industry
<b>Guangzhou</b>	Intelligent Equipment & Industrial robots
<b>Shenzhen</b>	Intelligent robotics & wearables
<b>Dongguan</b>	Motion control systems, Specialised 3C industries robots
<b>Foshan</b>	Numerical control systems, Additive manufacturing
<b>Zhuhai</b>	Smart grid systems, Unmanned ships, Port systems, Medical devices
<b>Jiangmen</b>	Railway equipment, Special-purpose ships, Nuclear equipment
<b>Zhongshan</b>	Solar, wind power & satellite equipment
<b>Zhaoqing</b>	Instrument & meters, New sensors, Industrial robots

1. Source: “The Greater Pearl River – 7th Edition” – Invest Hong Kong

2. Source: Guangdong Intelligent Manufacturing plan 2015 – 2025

## Strong R&D capability with a large pool of educated talent

- Company spending on R&D as a share of GDP is greater in Guangdong than anywhere else in the country. Shenzhen is leading investment with an estimated 4% of the city's GDP, a ratio that brings it close to tech leaders like South Korea and Israel<sup>1</sup>
- Guangdong is also a highly educated area, as one of the two provinces with the largest number of graduates with degrees or diplomas in undergraduate courses (211,000 in 2014)<sup>2</sup>

	Overall Performance					New Products			
	Expenditure on R&D Project (US\$ billion)	Total Personnel in R&D Institutions	('000 person)	Patent (thousand)		Expenditure on New Products Development (US\$ billion)	Sales Revenue of New Products	(US\$ billion)	
			Doctor and Master	Application	In Force			Export	
<b>National Total</b>	<b>78.2</b>	<b>1,816.5</b>	<b>228.9</b>	<b>386.1</b>	<b>201.1</b>	<b>106.0</b>	<b>1,557.3</b>	<b>313.1</b>	
Guangdong Province	12.5 <sup>1</sup>	319.6 <sup>1</sup>	61.1 <sup>1</sup>	72.5 <sup>2</sup>	66.5 <sup>1</sup>	16.5 <sup>2</sup>	222.6 <sup>2</sup>	88.0 <sup>1</sup>	
Yangtze River Delta	Shanghai	4.5	69.9	12.9	19.4	12.5	6.9	120.3	16.0
	Jiangsu	12.0	241.6	24.7	72.8	26.7	18.3	229.8	68.0
	Zhejiang	7.0	237.1	15.8	52.2	18.1	9.3	155.6	39.3
Bohai Rim	Beijing	2.0	50.5	12.5	13.0	7.3	3.3	53.9	10.0
	Tianjin	2.5	35.3	4.0	11.9	5.2	2.9	59.3	11.6
	Hebei	2.1	45.2	5.0	5.8	2.6	2.3	29.4	3.5

R&D Indicators of Industrial Enterprises above Designated Size for Selected Coastal China Regions in 2011<sup>3</sup>

1. Source: Week in China

2. Source: National Bureau of Statistics PRC

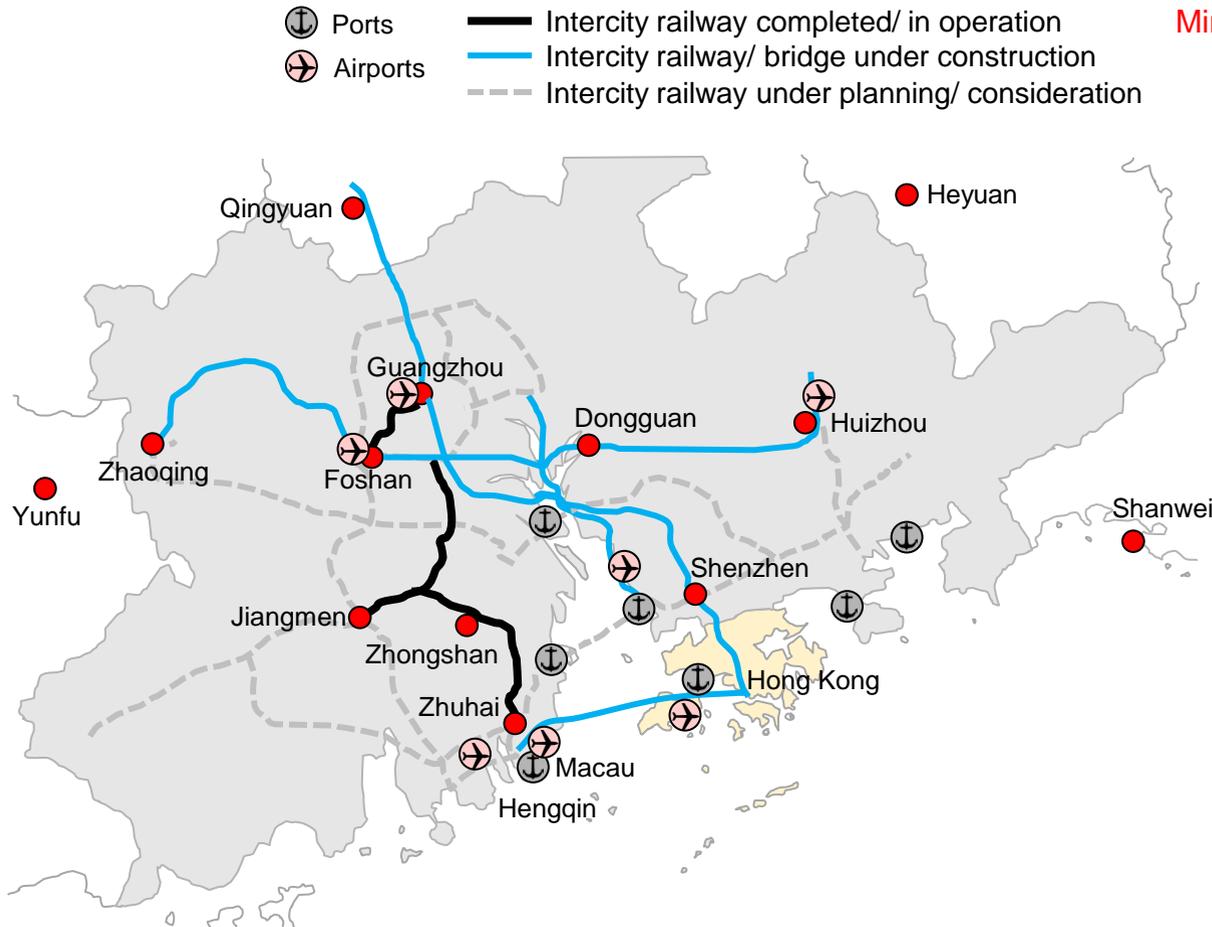
3. Source: "The Greater Pearl River – 7th Edition" – Invest Hong Kong

# PRD Opportunities

## PRD Opportunities

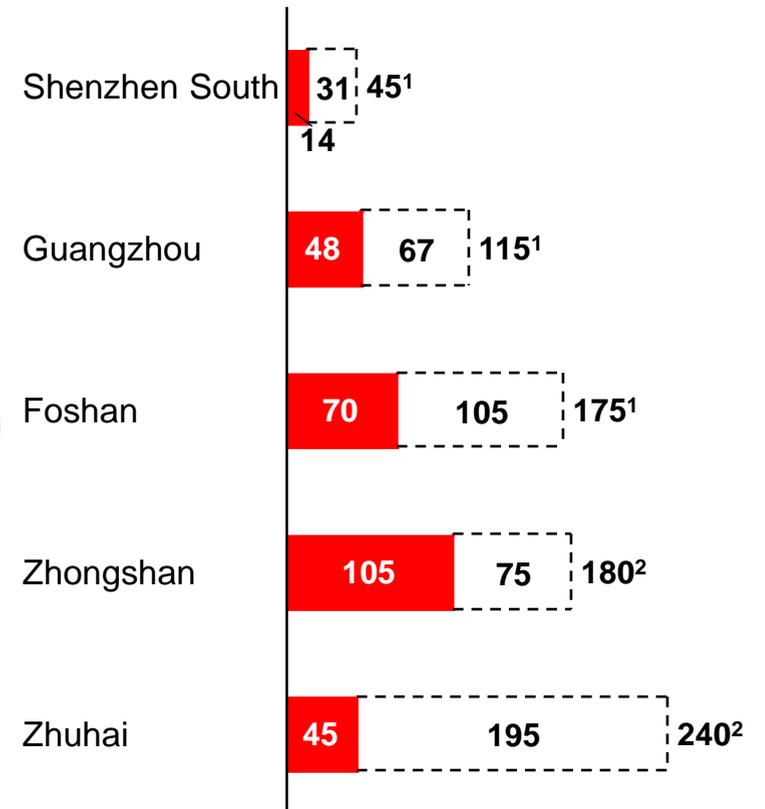
# Infrastructure investments to further enhance connectivity between PRD and Hong Kong

### Infrastructure investment in PRD



### Current vs. new journey time to/ from Hong Kong after completion of infrastructure

Minutes ■ New journey time     Time saved



**Hong Kong and surrounding PRD would likely be shaped into a single large metropolis area in the future**

Source: "The Greater Pearl River – 7th Edition" – Invest Hong Kong

1. Time saved based on train travel via new Express and Intercity Railway connections, which is expected to be completed by end of 2018
2. Time saved based on car travel via new Hong Kong-Zhuhai-Macau bridge, which is expected to be completed by end of 2017

## PRD Opportunities

A combined Pearl River Delta and Hong Kong would rank as the world's largest banking city cluster by 2025<sup>1</sup>

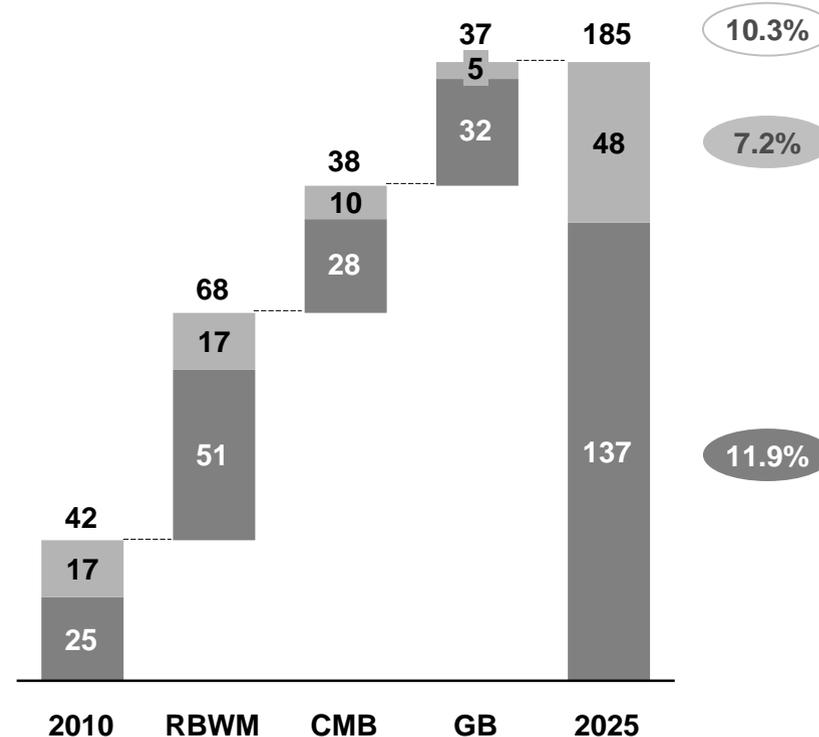
### Total banking revenue estimates<sup>1</sup>

City / Cluster	Rank <sup>1</sup>		Total banking revenue <sup>2</sup> 2025, USDbn
	2010	2025	
PRD <sup>3</sup> + Hong Kong	2	1	185
Beijing	6	2	124
Shanghai	9	3	98
Sao Paulo	8	4	86
Tokyo	1	5	83
New York	3	6	73
Hong Kong (standalone)	12	7	48
London	7	8	45
Los Angeles	10	9	45
Singapore	17	10	42
Guangzhou (standalone)	24	11	41
Tianjin	40	12	38
Paris	5	13	38
Shenzhen (standalone)	29	14	38
Toronto	14	15	31

### Total revenue after risk<sup>2</sup>, USDbn

■ Hong Kong  
■ PRD

2010-2025 CAGR



1. In terms of total risk adjusted revenue pool for Retail Banking (excluding consumer finance) and Corporate Banking. Based on McKinsey's city attractiveness model

2. McKinsey estimates of banking revenues after risk costs, representing customer-driven banking figures and excluding consumer finance revenues. Different from reported results, noncustomer-related results (such as ALM, prop. Trading) are excluded

# Free trade in services with Hong Kong under the Closer Economic Partnership Agreement (“CEPA”)<sup>1</sup> framework

## Background

- CEPA is a free trade agreement concluded by the Mainland and HK covering 3 areas: trade in goods, trade in services, trade and investment facilitation
- Trade in services:
  - HK service suppliers enjoy preferential treatment (eg. allowing wholly-owned operations, relaxing restrictions on equity shareholding) when setting up business in 153 service sectors in the Mainland
  - HK will also enjoy “most-favoured” status regarding preferential treatment

## Key preferential treatment and activities enabled by CEPA related to financial services<sup>2</sup>

### Banking

- Establish cross-location sub-branches in Guangdong
- Sale and distribution of mutual funds
- Specialised institutions for providing financial services to SMEs
- Consumer finance companies in Guangdong on a pilot basis

### Securities and fund mgt

- One full-licensed, majority-owned JV securities company each in Guangdong and Shenzhen
- Majority-owned JV fund management companies
- Majority-owned JV securities investment advisory companies

### Insurance

- Jointly-owned (up to 50%) Sino-foreign JV life insurance companies
- Wholly-owned insurance agency companies in Guangdong

Source: Trade and Industry Department, HKSAR

1. Refer to Appendix 3 for more information regarding CEPA

2. Based on “The Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong” effective 1MAR15 and other CEPA Agreements

## Further financial sector opportunities in Guangdong driven by regulatory development

### Guangdong Free Trade Zone (FTZ)<sup>1</sup>

- Preferential initiatives are expected to be rolled out in Guangdong FTZ:
  - Two-way RMB financing between FTZ, Hong Kong & Macau
  - Establishment of an overseas RMB investment fund
  - Cross-border transfer of RMB credit assets
  - Relaxed foreign debt management

### Qianhai<sup>2</sup>

- As part of Guangdong FTZ, Qianhai in Shenzhen is expected to remain at the forefront with respect to cooperation with Hong Kong:
  - Special policies <sup>2</sup> (e.g. financial, taxation, talent, legal) to attract Hong Kong as well as international investors
  - Huge growth potential for RMB internationalisation and cross-border financing businesses

### Other potential policy relaxation

- Shenzhen-Hong Kong Stock Connect expected to be launched in 2016
- In 2014, Guangdong has the largest volume (26.7% of total) of RMB cross-border trade settlement among all the provinces<sup>3</sup>
- Invigorate cross-border investment through relaxed ODI/FDI requirements
- The Belt and Road Initiative – Guangdong is positioned by the Central Government as the Strategic Maritime Hub and Economic & Trade Cooperation Center in the initiative

Sources: HKTDC Research, "Guangdong's Implementation Plan for Participating in the Belt and Road Initiative"

1. Refer to Appendix 4 and 5 for more information regarding China's FTZ

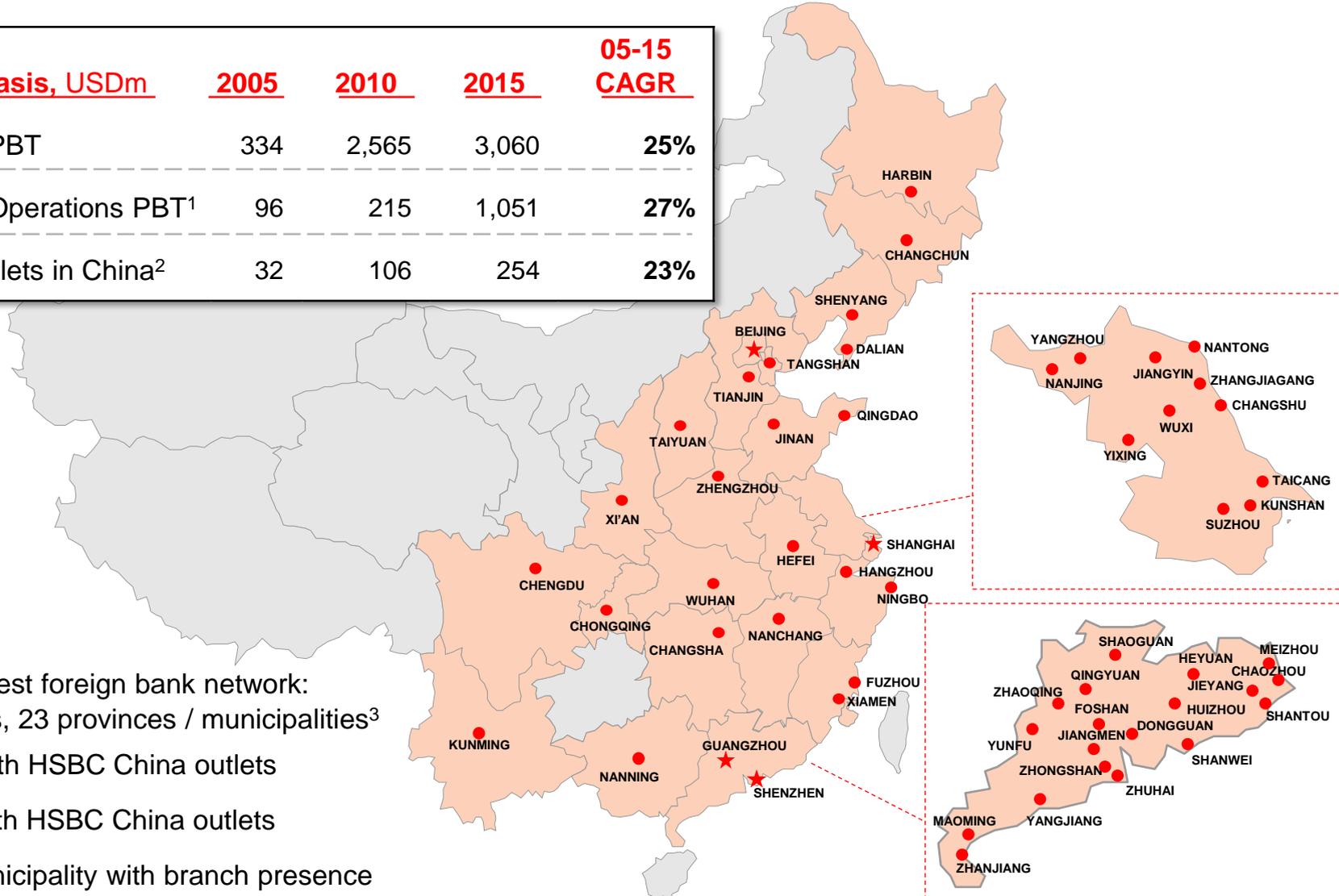
2. Refer to Appendix 5 and 6 for more information regarding Qianhai

3. Source: PBoC RMB Internationalisation Report 2015

# HSBC in PRD

# HSBC as the leading foreign bank in China and the PRD

<u>IFRS reported basis, USDm</u>	<u>2005</u>	<u>2010</u>	<u>2015</u>	<u>05-15 CAGR</u>
Mainland China PBT	334	2,565	3,060	25%
Mainland China Operations PBT <sup>1</sup>	96	215	1,051	27%
HSBC Group Outlets in China <sup>2</sup>	32	106	254	23%



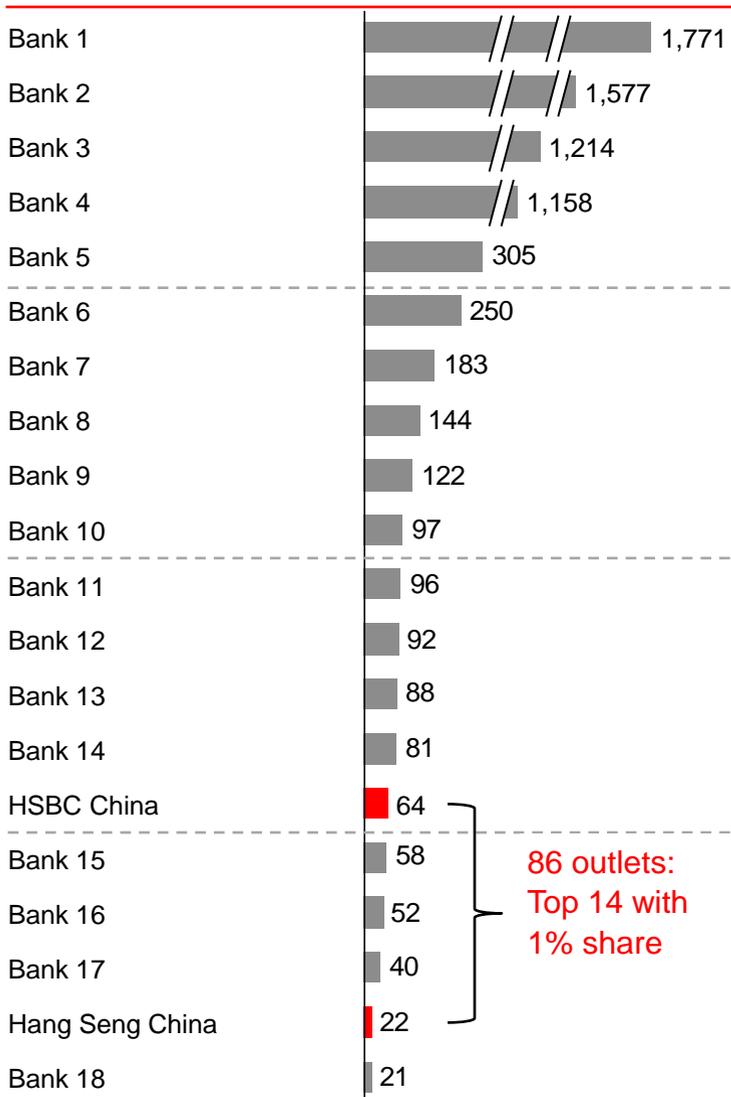
HSBC China with largest foreign bank network:  
176 outlets in 57 cities, 23 provinces / municipalities<sup>3</sup>

- ★ Tier 1 cities with HSBC China outlets
- Other cities with HSBC China outlets
- Province / municipality with branch presence

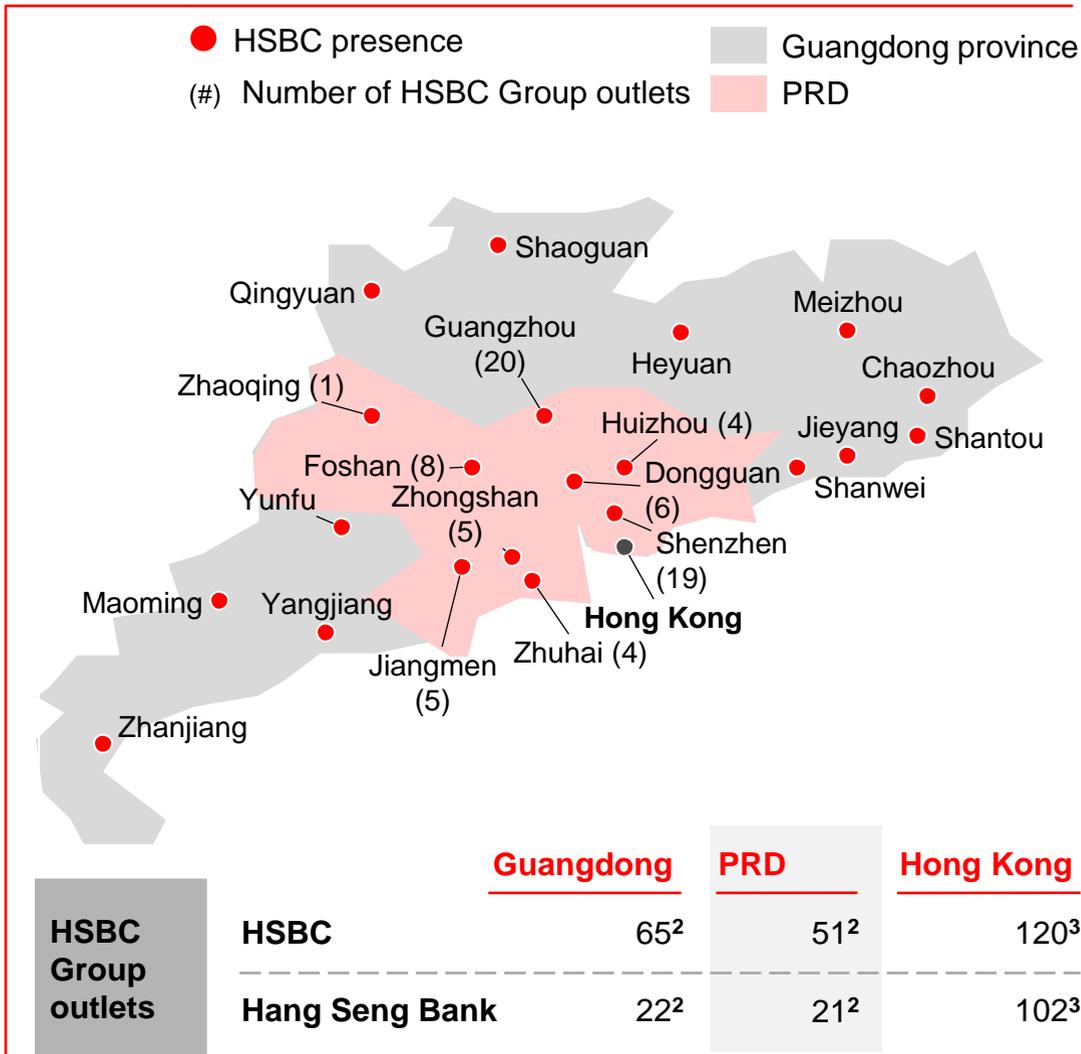
Sources: HSBC annual report, Hang Seng annual report  
 1. Mainland China excluding associates  
 2. Includes HSBC China, Hang Seng Bank China, and HSBC China Rural Banks  
 3. As of JAN16

# HSBC is well positioned in Guangdong as the strategic region to expand and achieve scale

## Number of outlets in Guangdong<sup>1</sup>



## HSBC present in all 21 prefecture-level cities of Guangdong, with a strong focus on PRD cities



1. Based on latest available figures. Sources: company disclosures, annual reports  
 2. As at JAN16; HSBC includes HSBC China (64) and HSBC China Rural Banks (1) in Guangdong  
 3. As at MAY15

# PRD – Strategy anchored on long-term growth themes, targeting USD1bn PBT in medium term

## Leverage market leading position through select growth themes

---

### Emerging Middle Class

- Grow and enhance distribution through significant investment in digital platform and mobile sales force
- Broaden product offerings and accelerate quality asset growth
- Capture cross-border wealth flows
- Roll out of credit cards business – under a relationship-led “Card First” strategy to drive new customer acquisition

### Commercial clients / connectivity

- Enhance coverage and implement sector specialism to deepen wallet share and drive returns in Large Corporates
- Broaden client base and capture new-to-bank opportunities in the Mid-Market Enterprises space
- Build up Business Banking Upper and drive for deposit-heavy product mix

### New business capabilities

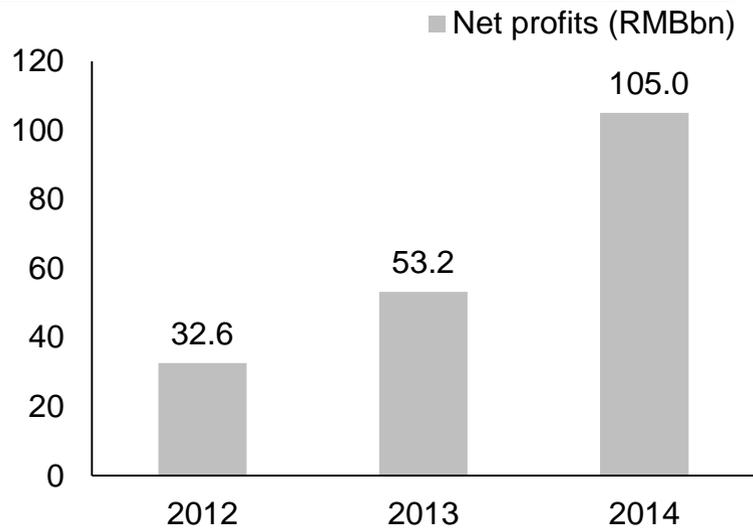
- Expand capital market capabilities from policy liberalisation, e.g.:
  - Securities: establishment of a foreign majority-owned (51%) securities JV in Qianhai – a first for mainland China (subject to regulatory approval)
  - Asset management
  - Metals and commodities
- Drive incremental Greater China / offshore income from regulatory relaxation

# HSBC Customers

# Midea – the leading electronic appliance manufacturer

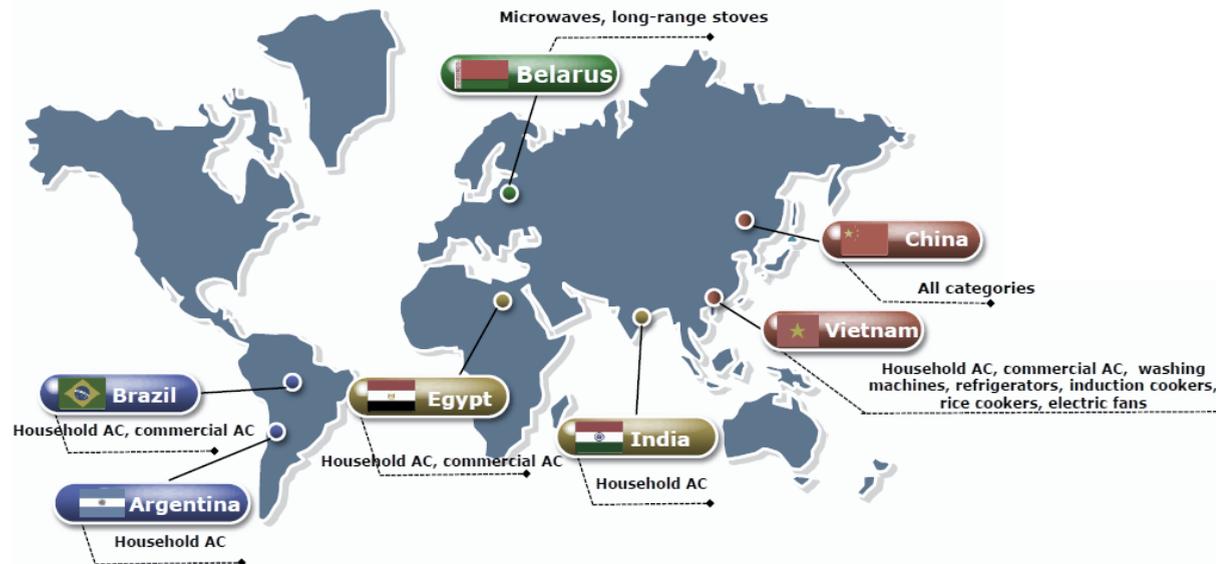
- Established and headquartered in Foshan City of PRD in 1968, Midea is a leading consumer appliance and heating, ventilation and air-conditioning systems (HVAC) manufacturer with over 100,000 employees globally
- Offices in more than 60 countries, production bases in 7 countries, products sold to more than 200 countries (38% of its 2014 revenue generated from overseas)
- World's largest white goods company; China's biggest home appliances brand (ranked 32<sup>nd</sup> of 2015 Fortune China 500)
- Midea Group listed in Shenzhen Stock Exchange in 2013

## Financial Highlights of Midea



Sources: Midea Group website and annual report

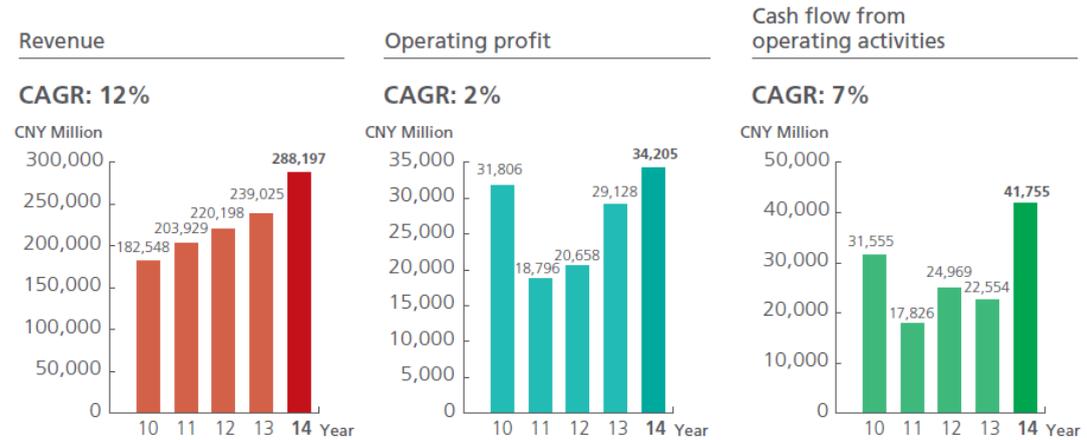
## Production Bases of Midea Worldwide



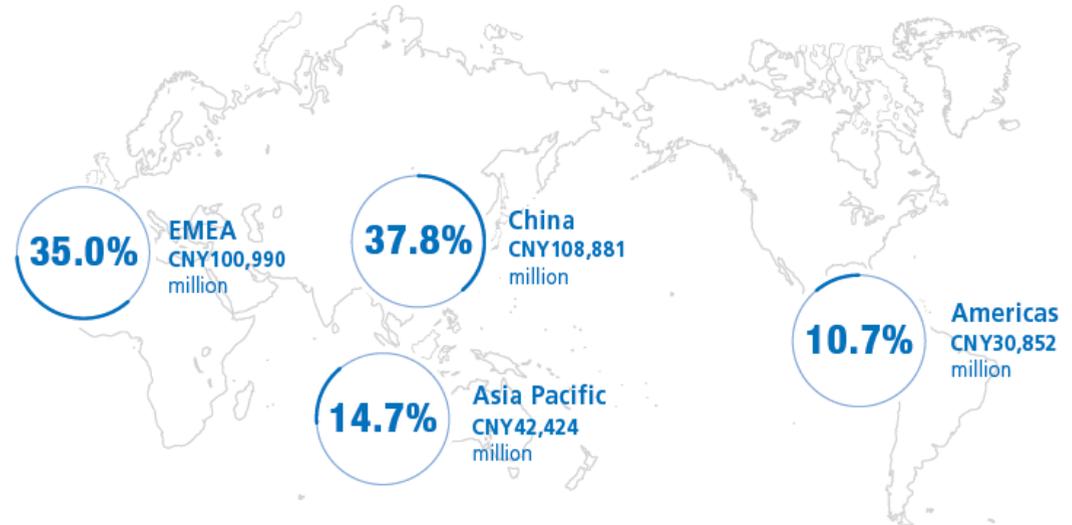
# Huawei – a global leader of ICT solutions

- Established and headquartered in Shenzhen of PRD in 1987, Huawei has grown to a global company with a sales volume of USD46.5bn (2014) and 170,000 employees<sup>1</sup>
- Its telecom network equipment, IT products and solutions and smart devices are serving more than one third of the world’s population; now the number 3 smartphone vendor in the world by unit volumes<sup>2</sup>
- Business presence in over 170 countries, 14 regional headquarters, 16 R&D centres (including Germany, Sweden, the US, France, Italy, Russia, India, and China)<sup>1</sup>
- Ranked 228<sup>th</sup> of 2015 Global Fortune 500<sup>1</sup>; Huawei is an employee-owned company<sup>1</sup>

## Financial Highlights of Huawei



## 2014 Revenue of Huawei Worldwide



1. Source: Huawei website and annual report  
 2. After Samsung and Apple. Source: Week in China

## DJI – the world leader in camera drones/quadcopters for aerial photography

- Established and headquartered in Shenzhen of PRD in 2006, DJI has grown to a global company with over 3,000 employees working in the US, Germany, the Netherlands, Japan and China<sup>1</sup>
- It manufactures a range of products including flying cameras, flying platforms, flight controllers for multi-rotors for industrial, professional and amateur use
- World's largest supplier of civilian camera drones (c.70% of the USD2bn global market)<sup>2</sup>; producing more than 45% of the registered commercial drones in the US<sup>3</sup>; 2015 sales estimated at about USD1bn<sup>4</sup>
- DJI is a private owned company

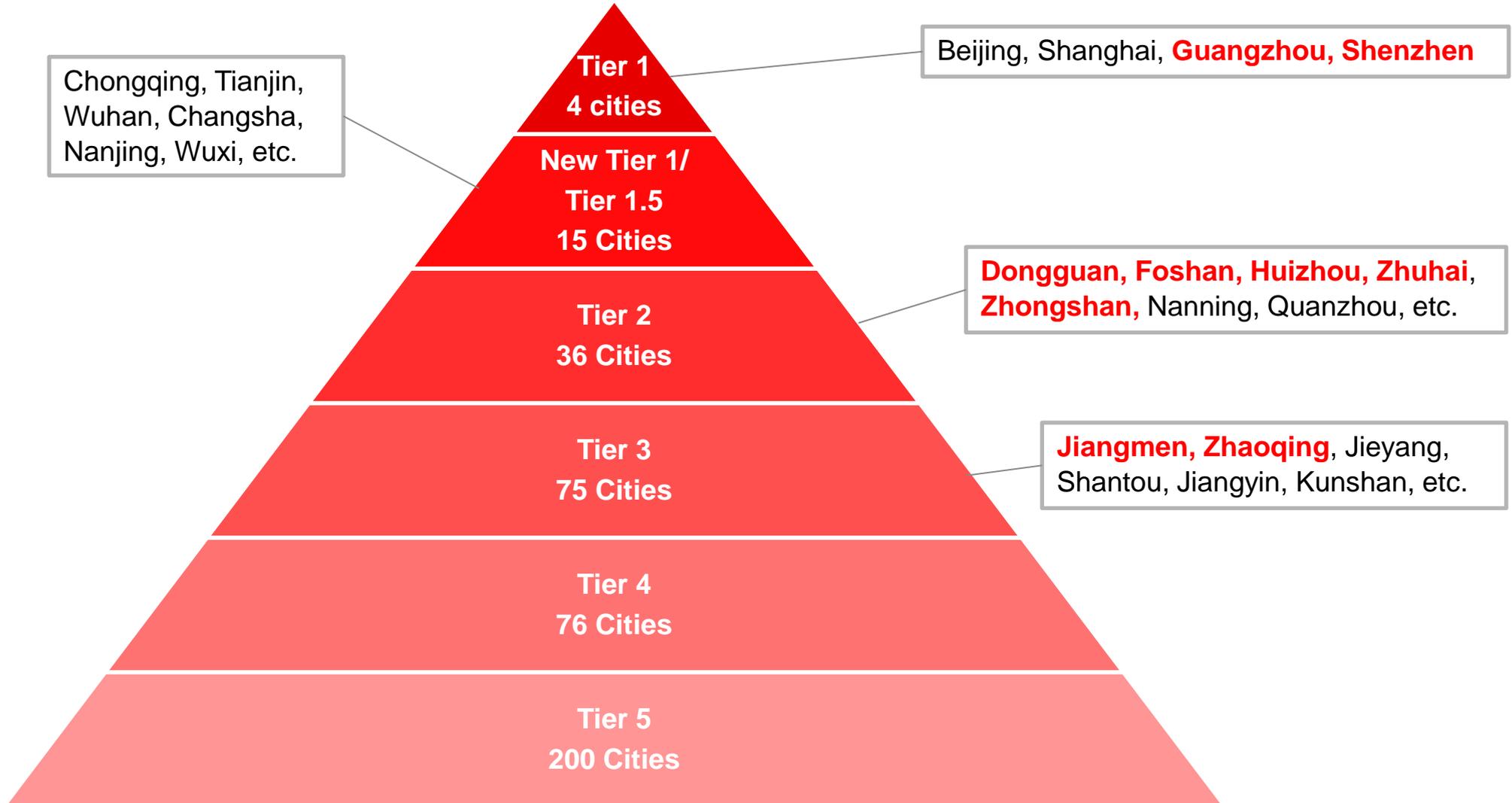


1. Source: DJI website  
2. Source: Fortune  
3. Source: SCMP  
4. Source: Week in China

# Appendices

## Appendix 1

# Tiers of cities in China<sup>1</sup> (PRD cities highlighted in red)



1. China Business News (CBN) Weekly, China's leading business news magazine, published their 2013 list of Chinese city rankings. Factors analyzed included the city's GDP, per capita income in 2012, number of foreign consulates, top 500 world companies, universities (211 in total), international flight routes, and airport passenger traffic in 2012

## Special Economic Zones (SEZ) in China

### The Five Special Economic Zones in China



- Special Economic Zones were established as part of China's "reform and open-door" policy:
  - The first 4 Special Economic Zones established in early 1980s were Shenzhen, Zhuhai, Xiamen and Shantou, of which 3 are located in Guangdong and 2 are in PRD
  - To attract foreign investments and technology, provide employment, utilize Chinese and imported resources, and support capital formation
  - Preferential arrangements for foreign investors with regard to equipment imports, raw materials and production components, product exports, corporate income tax rates, foreign exchange and the remittance of profit, land use rights, and residence and immigration permits
  - In 1988, the fifth SEZ – Hainan Province was established focused principally on the touristic and agribusiness sectors

# Closer Economic Partnership Agreement (“CEPA”) framework

### Background

- CEPA is a free trade agreement first concluded by the Mainland and Hong Kong in 2003; its scope has expanded since
- Against this background, the Central and Hong Kong governments signed The Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong in Dec14
- A further Agreement on Trade in Services under CEPA was signed in NOV15, expanding on the Guangdong agreement signed in DEC14

### Highlights from latest CEPA Agreement (effective 1JUN16)<sup>1</sup>

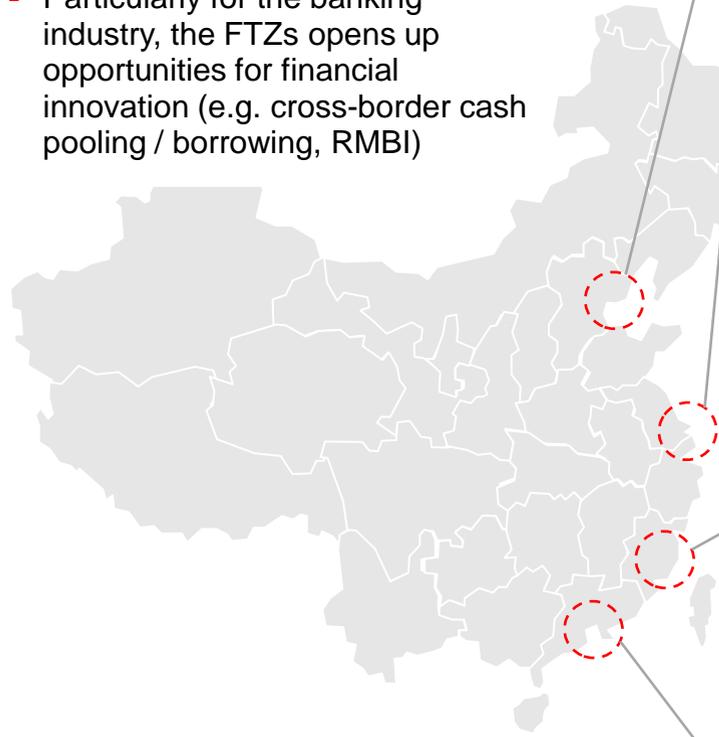
- Based on the Guangdong Agreement, the Agreement further enhances liberalisation in both breadth and depth, including
  - Extending the implementation of a number of Guangdong pilot liberalisation measures to the whole of Mainland China
  - Reducing the restrictive measures in the negative list
- Under the Agreement, the Mainland will fully or partially open up 153 service sectors (accounting for 95.6% of all the 160 WTO services trade sectors) to Hong Kong companies
- Hong Kong will enjoy "most-favoured" status in terms of preferential treatment
  - i.e. any preferential treatment the Mainland accord to other countries or regions, if more preferential than those under CEPA, will be extended to Hong Kong
- Example sectors that benefit from the Agreement:
  - Legal, Accounting, Constructions and design, Insurance, Securities, Banking, Transport, Telecommunications, Culture and entertainment, Audiovisual/films

## Appendix 4

# Free trade zones will serve as testing grounds to reform and further liberalise China's economy

### Background

- FTZs provide a controlled testing ground for reforms and offer a unique investment and operating environment to foreign and domestic businesses
- Particularly for the banking industry, the FTZs opens up opportunities for financial innovation (e.g. cross-border cash pooling / borrowing, RMBI)



### Free Trade Zones

#### Tianjin (120km<sup>2</sup>)

- Tianjin airport
- Tianjin Port
- Binhai New Area Central Business District

#### Shanghai (121km<sup>2</sup>)

- Waigaoqiao FTZ
- Yangshan Free Trade Port Area
- Shanghai Pudong Airport Comp. FTZ
- Lujiazui financial district
- Jinqiao / Zhangjiang districts

#### Fujian (118km<sup>2</sup>)

- Pingtan
- Xiamen
- Fuzhou

#### Guangdong (116km<sup>2</sup>)

- Nansha in Guangzhou
- Qianhai / Shekou in Shenzhen
- Hengqin in Zhuhai

### Objective and focus

- Focus on trade with Japan and South Korea, and the general opening-up of Beijing-Tianjin-Hebei regional cluster
- Further open up service and high-end manufacturing industries

- Blueprint for other FTZs
- Mandated to implement reforms to:
  - Streamline government
  - Improve investment access
  - Improve legal, regulatory and taxation systems
  - Further liberalise the financial sector, including full convertibility of the RMB under capital account and interest rate liberalisation

- Focus on trade businesses with Taiwan, modern service industry and manufacturing businesses
- Fuzhou aiming to become a hub for high-end manufacturing, an important platform of “The Maritime Silk Road”, and a model of China-Taiwan collaboration in financial innovation and bilateral trade

- Focus on economic integration and cooperation with Hong Kong and Macau in trade and financial cooperation
- Lead the upgrade and transformation of manufacturing and trade industries in the Pearl River Delta

# China (Guangdong) Pilot Free Trade Zone

## Three sub-zones of Guangdong Free Trade Zone



Source: HKTDC Research

## Three sub-zones totalling 116km<sup>2</sup>

### Nansha in Guangzhou (60km<sup>2</sup>)

- One of the country's three shipbuilding bases, a national auto and spare parts manufacturing and export base, and a nuclear power equipment manufacturing base
- Aiming to take the lead in implementing free trade in services with HK and Macau, building an international shipping and logistics centre with comprehensive international trade functions and strong financial innovation ability

### Qianhai – Shekou in Shenzhen (28km<sup>2</sup>)

- Qianhai and Shekou are just across the sea from HK
- Leveraging on the close cooperation in modern services between Shenzhen and HK, taking advantage of HK's rule of law and level of internationalisation
- Give emphasis to developing new strategic services such as finance, modern logistics, information, and technology services

### Hengqin in Zhuhai (28km<sup>2</sup>)

- Linked to Macau via the Lianhua Bridge
- Give emphasis to developing such industries as tourism, leisure and health, commercial and financial services, culture, science and education, and new and high technology

## Appendix 6

# Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone

### Key special policies

---

#### Financial Policies

- Qianhai shall experiment with the expansion of offshore RMB fund flow-back channels. Qianhai will support the development of HK as an offshore RMB settlement centre and establish a cross-border RMB innovation zone in order to facilitate the development of RMB financial services
- Qianhai shall support the issuance of RMB loans from local banking institutions to international projects, and from HK-based banking institutions to Qianhai projects under CEPA

#### Taxation Policies

- Eligible companies registered in Qianhai are subject to a 15% preferential corporate income tax rate
- Eligible professionals who are employed in Qianhai are exempt from personal income tax

#### Legal Policies

- Qianhai shall support HK arbitration agencies' establishment of affiliated agencies in Qianhai
- Qianhai shall support the joint operation of mainland and HK law firms under CEPA

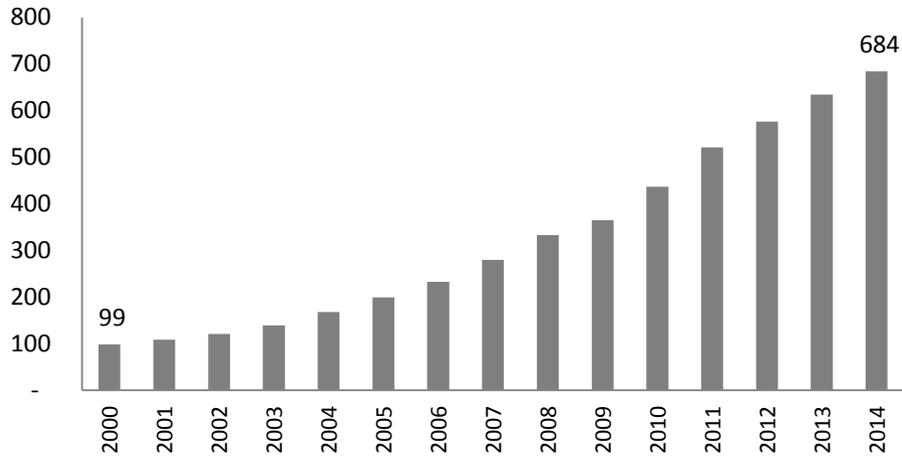
#### Human Resource Policies

- Professionals with certification from HK shall be permitted to provide professional services, the boundary of which is confined to Qianhai and to the enterprises and residents of Qianhai
- Professionals from HK with the certificates of Certified Public Accountant of China shall be permitted to serve as partners of mainland Chinese accounting firms

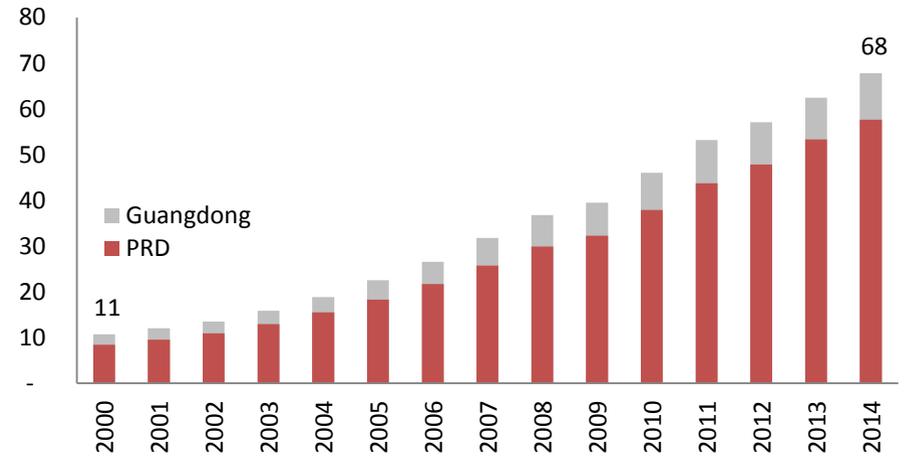
## Appendix 7

# PRD statistics

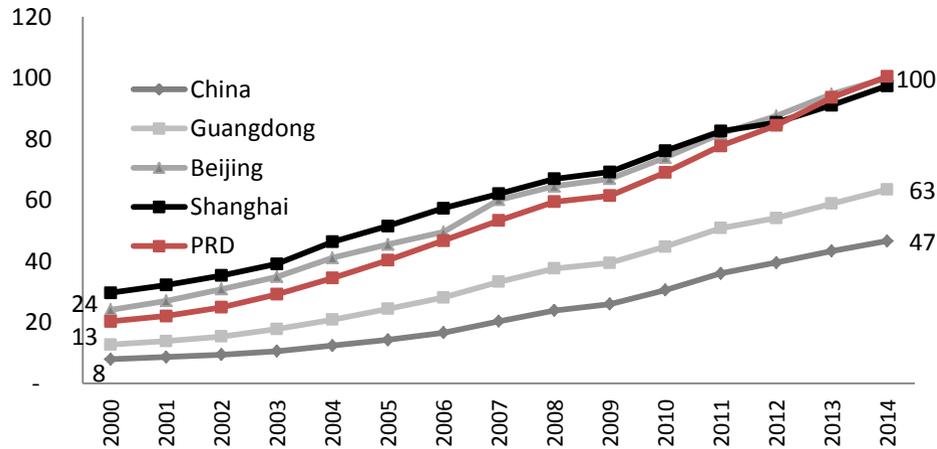
### China GDP, RMB100bn



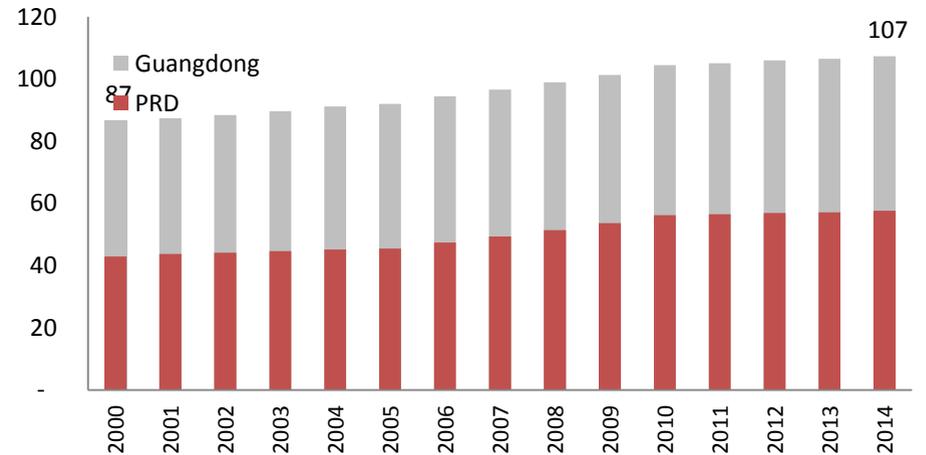
### Guangdong and PRD GDP, RMB100bn



### GDP per capita, in RMB'000



### Population, m

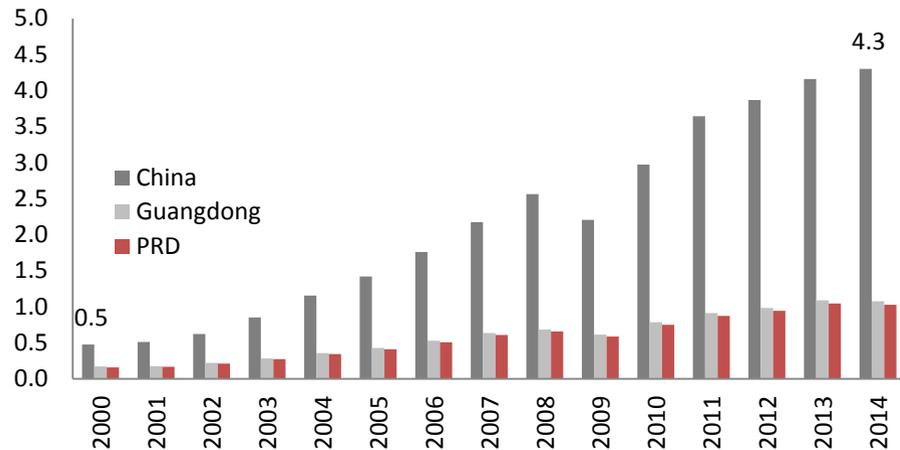


Sources: Statistics Bureau of Guangdong Province, National Bureau of Statistics of the People's Republic of China

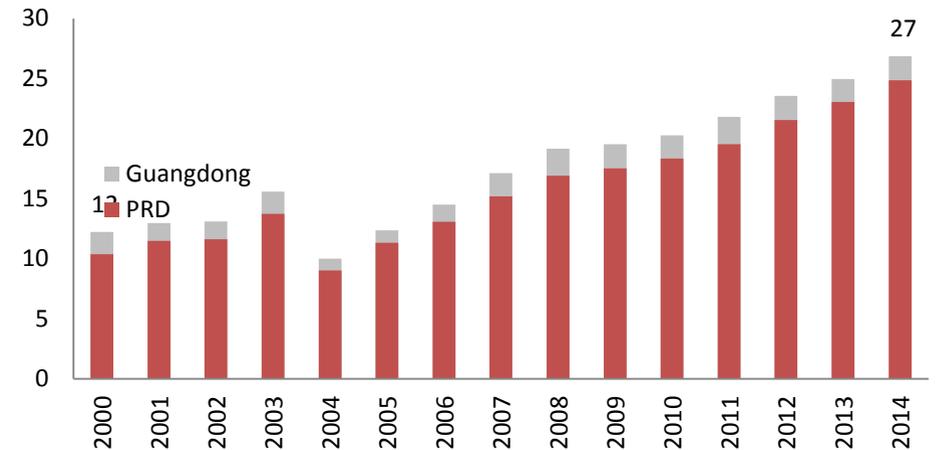
## Appendix 7

# PRD statistics (Continued)

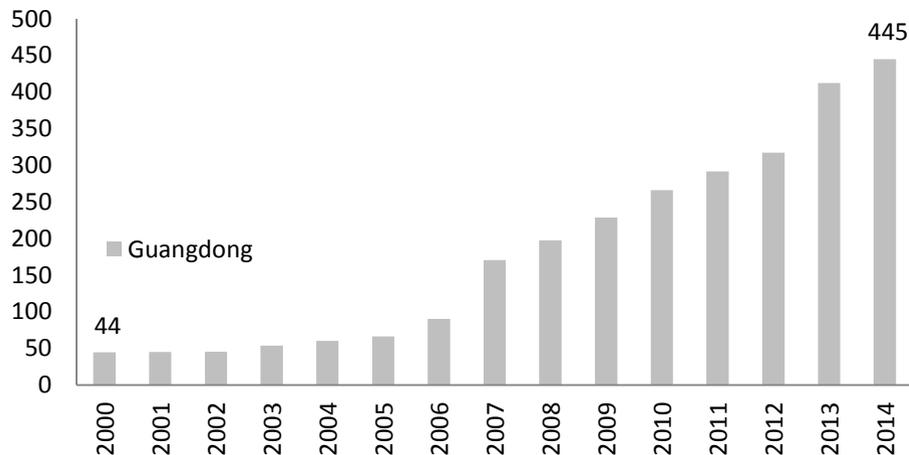
### Trade, USDtrn



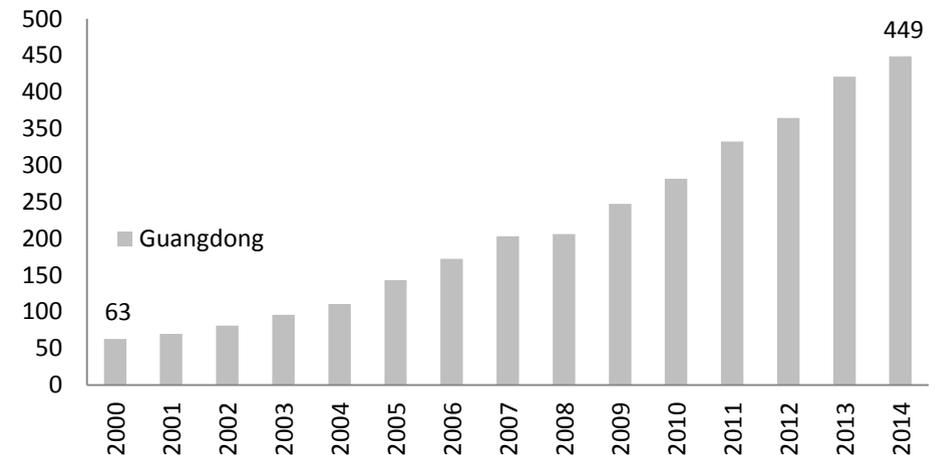
### Foreign direct investment, USDbn



### Value-added of financial intermediation, RMBbn



### Value-added of real estate, RMBbn

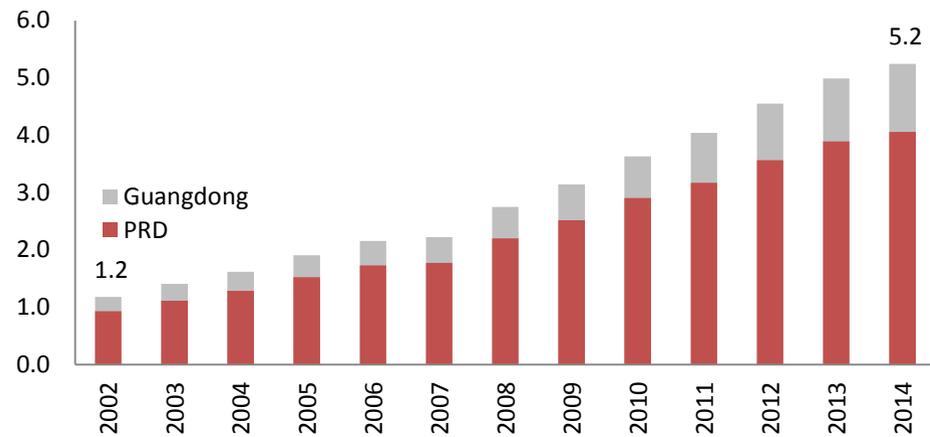


Sources: Statistics Bureau of Guangdong Province, National Bureau of Statistics of the People's Republic of China

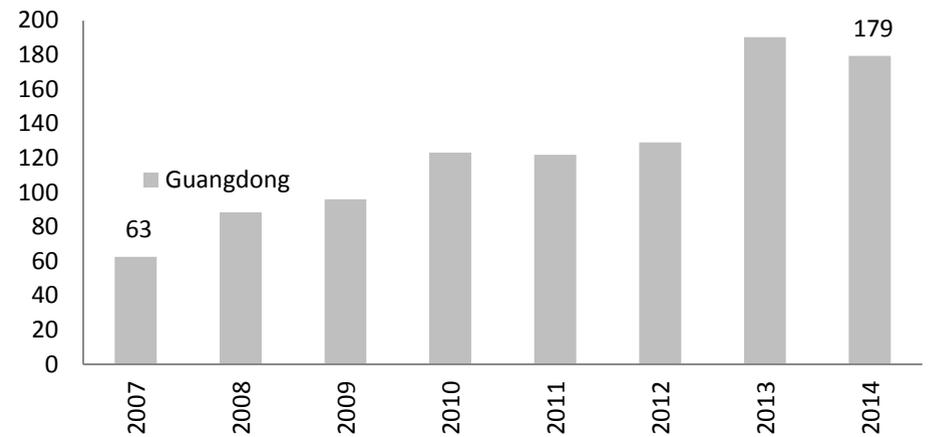
## Appendix 7

# PRD statistics (Continued)

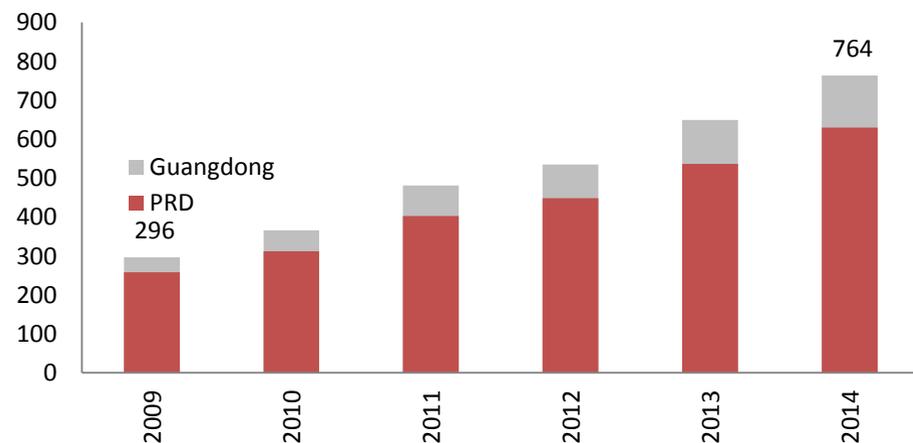
### Savings deposit of urban and rural households, RMBtrn



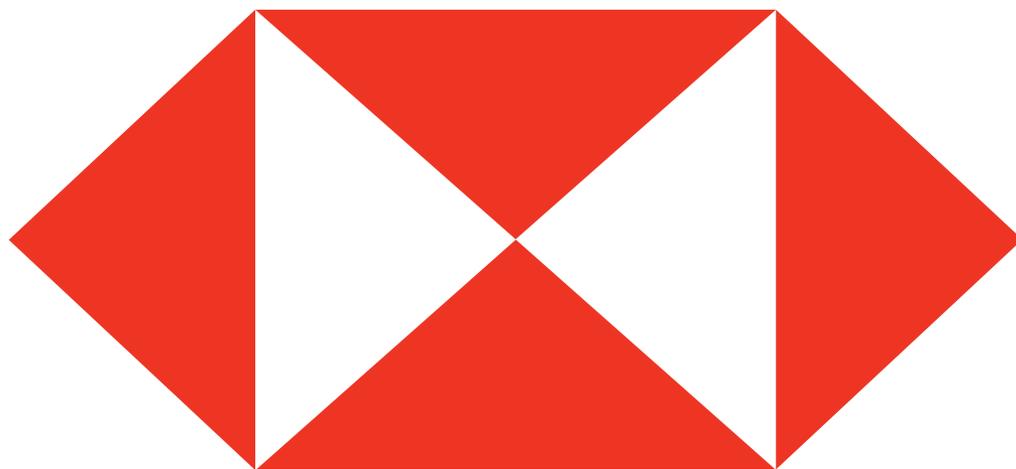
### Premium of Primary Insurance, RMBbn



### Investment by enterprises for real estate development, RMBbn



Sources: Statistics Bureau of Guangdong Province, National Bureau of Statistics of the People's Republic of China



HSBC Holdings plc  
8 Canada Square  
London E14 5HQ  
United Kingdom  
Telephone: 44 020 7991 3643  
[www.hsbc.com](http://www.hsbc.com)