

GBA Digest

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Economic Outlook

Opening up new horizons on a shifting landscape: GBA economic outlook for 2023



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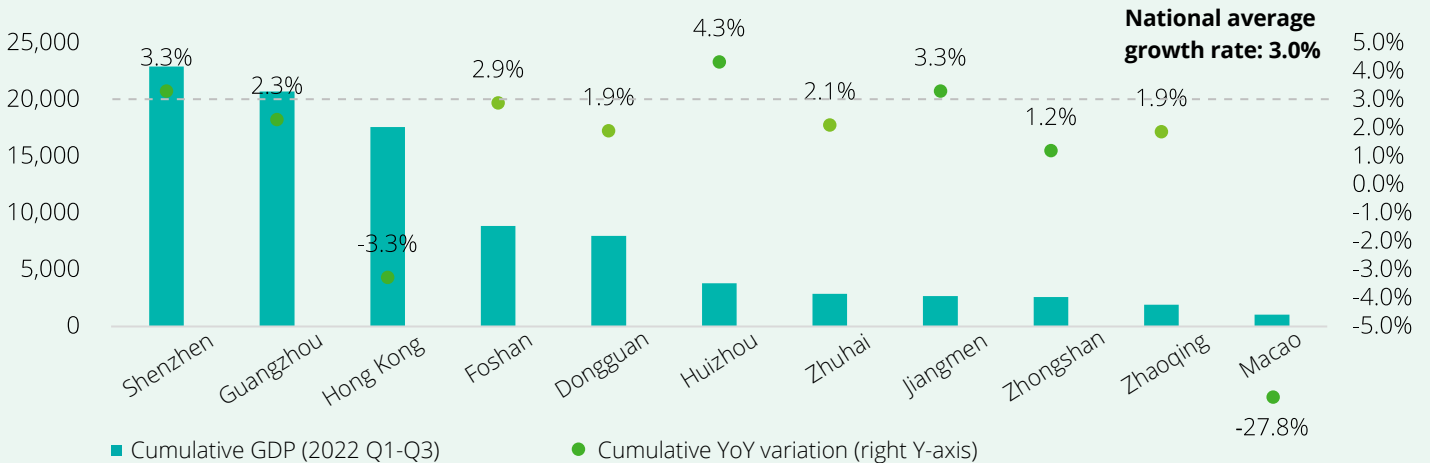
Easing of COVID-19 measures fuels momentum for economic rebound

At the end of 2022, China's pandemic policies saw major changes. With the introduction of "10 new measures", starting from 8 January 2023, all inbound travellers to Mainland China are no longer required

to undergo PCR tests and quarantine. We estimate the national GDP growth in China will exceed 4.5% with adequate policy support in 2023. It is noteworthy that Guangzhou, one of the core cities in the Greater Bay Area (GBA), has started easing of the local COVID-19 measures

one week before the "10 new measures" announcement. Indeed, Guangzhou is also one of the first Mainland cities to ease COVID-19 measures, reflecting its foresight and flexibility in optimising pandemic controls.

Figure: Economic performance of China and the GBA (as of 2022 Q3) (RMB 100M)



Source: Wind, Deloitte Research

The GBA has a solid foundation for expanding domestic demand

The Chinese government has set expanding domestic demand as a top priority in advancing economic recovery. The GBA cities are likely to see stronger rebound in consumption, despite concerns of COVID-19 cases and weakening expectations may limit the overall recovery. It is because 1) the GBA is one of the regions in China with the highest middle-income population who have strong spending power, while these consumers are also open to try new products; 2) recovery of Hong Kong's retail and tourism sectors will accelerate upon the resumption of cross-boundary travel; and 3) Guangzhou and Shenzhen are actively promoting innovation in consumption scenarios to fully unleash the domestic demand potential and become the international consumer cities.

At the same time, revitalizing private investment is another pillar of the government's strategy to expand domestic demand. The 2022 Central Economic Work Conference once again clarified the role of the private sector by stressing the principle of the "Two Unswerving Rules" to consolidate and grow the public-owned economy and to encourage, support and guide the development of the private sector. The Conference also emphasized the critical roles of platform companies in leading China's development, jobs creation and competitiveness in the global economy. As the frontier of reform and opening up, the GBA has a highly dynamic private economy and strong growth resilience. Guangdong Top 100 Private Enterprises have together achieved a 7.2% growth in net profit in 2021. The Government's confidence in the private economy and the vigorous economic vitality in the GBA will lay the foundation for the region to expand effective investment.

Industrial integration, synergic innovation and financial connectivity are long-term drivers for the GBA growth

From a long-term perspective, the real economy, technological innovation and high-level opening-up are essential to support China's high-quality growth. The GBA has a leading advantage in this regard with the

comparatively well-developed industrial, technology and financial sectors, which can also empower each other to drive regional growth in the long run.

Regarding the industrial development, the GBA has a solid foundation for industrial integration with a focus on serving the real economy. Guangdong province has long been a manufacturing center in China, with a total number of 867 State-level technologically advanced "little giant" companies, which is the second largest in China. In recent years, strong efforts have been made to promote tech-driven transformation and related investments among industrial enterprises in Guangdong province. Furthermore, many companies in productivity-related services and digital economy have set up businesses in the GBA. Both the professional services firms and practitioners, such as lawyers and accountants, in Hong Kong can also expand their practice across the region, offering huge potential to deepen the integration of services sector into advanced manufacturing, digital economy and the real economy.

Synergic innovation is also another significant advantage of the region. For instance, there are many renowned academic and research institutions in Hong Kong and Guangzhou to meet the fundamental needs for research and development; while the private sector in Guangzhou, Shenzhen, Dongguan and Foshan is well-developed, these cities also have strong capabilities to achieve technological breakthroughs and commercialization; and, as the connectors between the Mainland and the world, Hong Kong and Macao can attract global capital and talent to the GBA. According to Deloitte's research on the high-tech industry in the GBA, tech companies in Hong Kong attach more importance to "alliances and strategic cooperation" than those in the Mainland, and more than 60% of Hong Kong startups are interested in exploring business opportunities in the GBA Mainland. Going forward, development of the Hetao Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone will further the continuous enhancement of synergy innovation ecosystem in the GBA.

The high-level opening-up in the GBA, led by the financial connectivity in the region, is likely to see new breakthroughs.

In recent years, we have seen positive results from the progressive launch and expansion of various connect schemes, namely Stock Connect, Bond Connect, Wealth Management Connect and ETF Connect. Looking into the latest policy trends, the State Administration of Foreign Exchange has emphasized the priority to "innovate and optimize foreign exchange control policies, as well as to support China's key regional development strategy" at its 2023 annual work meeting. It is expected there will be more groundbreaking institutional innovations in cross-border trades, investment and financing in the GBA.

Looking forward, Hong Kong will play a more pivotal role in supporting the financial reform and opening-up of the Mainland and the internationalization of Renminbi (RMB).

For instance, financial institutions in Hong Kong can leverage their own advantages in cross-boundary wealth management business in accordance to the regulatory requirements from the Mainland authorities, further develop the offshore RMB market in breadth and depth, drive the growth of cross-boundary financing, expand the RMB business in Southeast Asia, and increase the international flow of RMB.

Executive Dialogue

A new chapter for the Guangdong-Macao In-Depth Cooperation Zone in Hengqin



Amber Li
President of HN Group
Founder of Serensia Woods



Sidney Cheng
Macau Office Managing Partner
Deloitte China

Amber Li is a renowned entrepreneur in Macao, president of HN Group, and a member of the 11th to 13th national committees of the Chinese People's Political Consultative Conference (CPPCC). She holds important positions in several Macao organizations, and has contributed significantly to healthcare, trade, culture, and education in Macao.

She has worked with pharmacy chambers to provide medical and health services for Macao residents. During the COVID-19 pandemic, she led pharmacy chambers to assist the SAR government's epidemic prevention. In addition, she founded the Macao-ASEAN International Chamber of Commerce, bridging Hong Kong, Macao, Taiwan, the Chinese mainland, and ASEAN countries. Over the past decade, she has led entrepreneurs from Macao, Hong Kong, Taiwan, and the Chinese Mainland to explore business opportunities throughout ASEAN countries. She is an active member of the standing committee of the Board of City University of Macau, participating in the university's development strategy planning and education resource allocation. Amber has been Chair of the Alliance Française Macao executive committee for more than 10 years and is dedicated to promoting French culture and providing a platform to expose residents of Macao, especially young people, to international experiences.

As a member of the National Committee of the CPPCC from Macao, she is familiar with Macao's advantages. She leverages her years of experience in developing healthcare projects to advance diversified tourism in Macao and the development of Hengqin. In addition, she has provided constructive suggestions on tax, customs clearance, and the employment and residence of Macao youth in Hengqin, hoping to accelerate the integration of Hengqin and Macao.



SC: On 5 September 2021, the CPC Central Committee and the State Council issued a general plan and outlined a blueprint for building the Guangdong-Macao In-depth Cooperation Zone in Hengqin. The Hengqin-Macao integrated development mechanism has improved over the past year. Through the concerted efforts of the governments of Guangdong Province and Macao SAR, the development of the Cooperation Zone has achieved important results in all relevant aspects at the current stage.

Amber, it's a great pleasure to have you with us and share your insights on the opportunities and challenges Macao businesses face in the Cooperation Zone, and suggestions for Hong Kong and Macao companies interested in doing business in Zhuhai.

Serensia Woods is the first wellness resort in the Cooperation Zone built by HN Group. Would you please share with us the strategy and concept of Serensia Woods? Why the Cooperation Zone?

AL: It took 25 years for Serensia Woods to develop from concept to completion. In 1993, I had a preliminary idea for the project when I finished my studies abroad and returned to Macao. In 2009, Hengqin became the third national "new area" after Pudong, Shanghai, and Binhai, Tianjin on the State Council's approval of the implementation of the Overall Development Plan for Hengqin. According to the Plan, Hengqin would gradually become a demonstration zone of integrated development of the Greater Bay Area under the "One Country, Two Systems" policy.

At HN Group, a century-old enterprise in Macao, we are committed to supporting the development of Hengqin and Macao. The Serensia Woods project is the first among the seven projects we plan to develop in Hengqin. Aligned with the positioning of Macao's development, Serensia Woods integrates the wellness and tourism sectors and introduces more opportunities for industrial diversification in Macao.

SC: Would you please share some experience in terms of business operations of the Serensia Woods project? For instance, what are the sizes of the company and resources invested?

AL: The Serensia Woods project is comprised of two phases. Phase 1 is a resort of 135,000 square meters, which started operation in 2022 Q2. The resort offers a wide range of services, from leisure, entertainment, and cultural activities to high-end wellness services, where guests can enjoy a healthy lifestyle with leisure. Serensia Woods obtained a general clinic license from the Bureau of Livelihood Affairs of the Cooperation Zone in February 2022 and became the first licensed medical facility wholly owned by a Macao enterprise since the establishment of the administration organization for the Cooperation Zone, and the first medical facility established in the Cooperation Zone under the Closer Economic Partnership Arrangement (CEPA). In August 2022, Serensia Woods obtained a traditional Chinese medicine (TCM) license, and we will continue to apply for more licenses (e.g., medical cosmetology).

SC: Based on your experience, what are the challenges facing Macao businesses in Hengqin?

AL: The Serensia Woods project is a high-end wellness and leisure resort developed by HN Group, a century old business in Macao, with a total investment budget of RMB 2.5 billion. Different rules, regulations and standards between the Chinese Mainland and Macao posed various challenges to the development of the Serensia Woods project and its operations.



1. Challenges due to different

industrial standards, Hong Kong and Macao versus the Chinese Mainland, for example:

- Differences in building specifications. In the Chinese Mainland, constructions should be categorized according to the building specifications. However, the current list of building specifications does not have a medical and wellness category. The project was therefore designed and built according to the specifications of hotels or rehabilitation centers, which are not exactly aligned with the actual purpose of the project.
- Different requirements for medical facilities. In the Chinese Mainland, all general clinics are required to set up at least five departments, including certain mandatory departments like an emergency room. Therefore, even though Serensia Woods' scope of services focuses on healthcare and rehabilitation treatments, it was necessary for us to establish the emergency room for compliance.

2. Mutual recognition of medical professionals in Guangdong, Hong Kong, and Macao.

Doctors and nurses from Hong Kong and Macao were required to obtain certifications in the Chinese Mainland to practice in Hengqin until the establishment of the Cooperation Zone, which allows them to use certifications

obtained in Hong Kong and Macao to apply to practice in the Cooperation Zone. Although for now, only doctors certified in the Chinese Mainland can be doctors-in-charge, we suggest these positions can be opened to medical professionals certified in Hong Kong and Macao in future.

3. Use of healthcare supplements, drugs, medical equipment, and technologies.

Currently, except for approved drugs urgently needed for clinical practice in designated medical facilities such as hospitals, most of the healthcare supplements, drugs, medical equipment, and advanced technologies available in Hong Kong and Macao are indeed prohibited in the Cooperation Zone. We look forward to further opening up the accessibility of such products and technologies in the Cooperation Zone. In particular, we suggest such opening up for Macao medical facilities should be accelerated to demonstrate the closer connection between the Cooperation Zone and Macao.

4. Imports of commodities available for use and sale in Hong Kong and Macao to the Chinese Mainland are banned unless they are registered in the system. For example, chemicals and industrial products for daily use, or products without animal testing. This therefore affects business operations in Mainland cities.

5. Lack of population in the Cooperation Zone is another challenge.

We hope Chinese authorities will allow more convenience for tourists, residents, and the workforce to travel between the Cooperation Zone and the SARs. For example, authorities can consider allowing Hong Kong or Macao Identity Card holders and foreigners working in Hong Kong or Macao to travel to the Cooperation Zone without a visa; while mainland residents and workforce in the Cooperation Zone could also apply for multiple entry visas to visit Hong Kong and Macao. Furthermore, foreign professionals are restricted from working in mainland cities due to visa policy and impacts from the pandemic. Foreigners are required to meet relatively high thresholds to obtain the work permits in the mainland, and we hope such thresholds could be lowered for some sectors.

6. Being classified as "foreign invested enterprises" limits the development of Hong Kong and Macao businesses in the Cooperation Zone.

For instance, activities such as online sales are prohibited because a foreign invested enterprise cannot be registered and licensed as internet content provider (ICP) on its own. (Note: ICP registration is indeed a highly complex and time-consuming process). We suggest Macao businesses should be exempted from such classification.

SC: In addition to existing policies, what do you think the Macao and Guangdong governments can do to further support businesses in the Cooperation Zone?

AL: Working on the Serensia Woods project was never easy. There were many more challenges to overcome at the beginning due to policy restrictions. However, we are very committed to contribute to solving the foreseeable issues of an aging population; and anticipate more support policies for the development of related sectors. Besides, the Guangdong government could also consider implementing new pilot programs in the Cooperation Zone, which we believe can enhance the overall strength of the Cooperation Zone with more policies supported by provincial and state authorities. With the support from various Macao governmental departments, we hope to build closer communication between Macao and Serensia Woods in setting rules in the Cooperation Zone, provide more assistance to Macao companies interested in doing business in the Cooperation Zone, and promote diverse economic growth in Macao.

SC: We believe there are always some challenges Macao companies have to face while doing business in Hengqin, e.g., questions around tax management and business operations. They might need assistance and advice from professional services firms, do you agree?

AL: In fact, we have witnessed some Macao companies interested in the Hengqin Cooperation Zone experience different levels of challenges in starting and running their businesses at the beginning. These companies could benefit from engaging some trustworthy professional firms by leveraging their services to accelerate and empower their business development in the Greater Bay Area. Certainly, professional services providers play a key role in improving the quality of businesses in the Cooperation Zone. In particular, considerations such as environmental, social and governance (ESG) should be incorporated into their business decision-making to pursue sustainable development. Such ideas might be new for now, but I believe demand for services in this area will continue to increase. Thus,

it would be great if professional services firms can support ESG initiatives and contribute to sustainability.

Besides support from governments and professional firms, development of the Cooperation Zone also needs word-of-mouth publicity.

Entrepreneurs should join forces to amplify marketing efforts to promote the Cooperation Zone. At the same time, they can exchange experiences and insights, and help one other overcome the difficulties in business and discover opportunities.





SC: How do you envision the Cooperation Zone 10 years from now?

AL: It is believed that the global economy will recover within 2-3 years, and the Cooperation Zone will see significant changes over the next 5-10 years.

Currently, authorities in the Chinese Mainland have been renewing and refining many projects, with an objective to support quality businesses, lead them onto the right path, and accelerate industries' growth.

As a result, the local employment rate and foreign investment in the Cooperation Zone will both increase to a certain extent. It is therefore a priority for the Cooperation Zone to drive the development of local industries, which will help the economic growth and reputation of the Cooperation Zone in the future. Governments could roll out more beneficial policies for companies in Hengqin to improve their competitiveness against competitors in Hainan, Nansha in Guangzhou, and Qianhai in Shenzhen.

I am confident in the future of the Cooperation Zone. Companies from Hong Kong and Macao might face various challenges at the beginning, but I believe they will also see the huge growth potential in the Hengqin Cooperation Zone. Big dreams always need patience and long-term vision – companies should remain prudent in business strategy and develop more targeted marketing strategies.





About Serensia Woods

As a leading diversified conglomerate with a century of history in Macao, HN Group is the pioneer entrant into the Cooperation Zone that founded Serensia Woods – the first wellness resort in the Cooperation Zone with a wide range of services, including disease prevention, anti-aging, rehabilitation, leisure, and a total wellness program. The objective of the Serensia Woods project is to promote cross-industry integration between tourism and medicine.

“The art of wellbeing” is at the core of Serensia Woods, a high-end wellness resort focuses on high quality lifestyle. It is also a desirable place for many people pursuing healthy and quality lifestyles, where they can enjoy different kinds of healthcare services and short vacations according to their needs.

Insurance

Be future ready: what makes an Insurer of the Future

**Joanna Wong**

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The insurance industry plays an integral part in the sustainable development of Hong Kong's financial services sector and its economy. A vibrant insurance industry is an "essential ingredient" for Hong Kong to enhance its leading position as an international financial centre.

With the continuous development in the Greater Bay Area, the Hong Kong SAR government is keen to push ahead with expanding and deepening its financial links with mainland China by adding insurance products to an array of cross-border investment platforms for stocks, bonds and wealth management instruments¹.

What comes to mind when you think about the insurer of the future? The reality is, when it comes to insurance, the future is here now!

To become an "insurer of the future", today's insurers should be ready to innovate and explore new approaches in your day-to-day business operations. However, successful innovation does not happen in silo. It requires substantial collaboration and partnerships in the corporate ecosystem. It brings together a wider range of expertise, capabilities and perspectives.

1. *Greater Bay Area: Hong Kong wants to add insurance products to 'Connect' menu to deepen cross-border links*, 7 Nov, 2022, South China Morning Post

 **Insurer of the Future Summit 2022**

On December 6, 2022, the Insurer of the Future Summit 2022 was successfully held at Deloitte Hong Kong office. As co-organizers, Deloitte and Hong Kong Applied Science and Technology Research Institute (ASTRI) share the same vision to strengthen the synergy across the insurance ecosystem to achieve greater impact and ambitious goals, promote further insurance innovation, and support an active debate on the industry future prospects.

The event has brought together over 120 senior executives, industry experts and major providers of solutions to the insurance industry in Hong Kong, with a dynamic platform for all participants in the insurance ecosystem to share their perspectives on the insurer of the future and discuss hot topics and other relevant market trends.



Opening remarks by Deloitte China Southern Region Managing Partner Edward Au (left) and ASTRI CEO Dr Denis Yip (right)



Keynote speech by Deloitte Global FSI Leader Neal Baumann and Chief Executive of the Hong Kong Federation of Insurers Selina Lau on "what makes an insurer of the future".



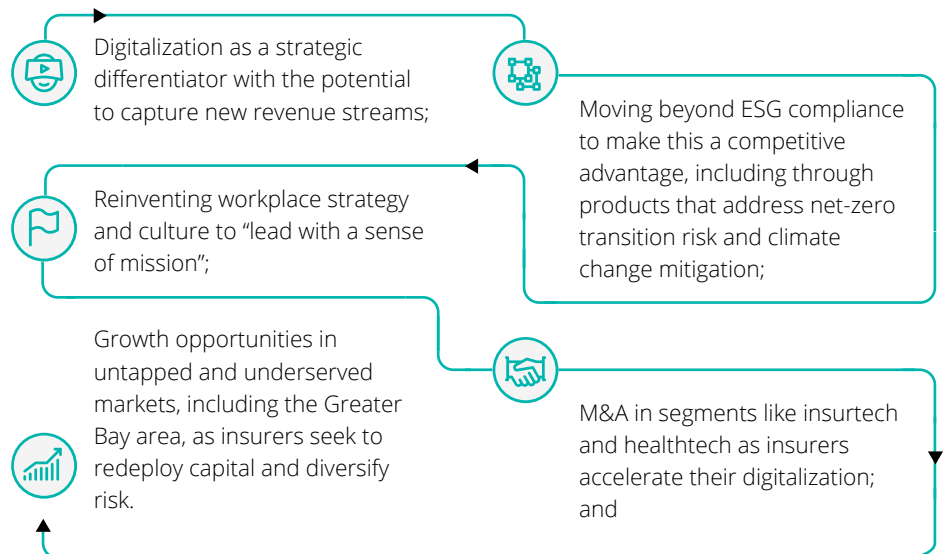
What's trending in 2023?



Deloitte China Hong Kong Insurance Leader Joanna Wong also shared the highlights of the latest Deloitte insights on 2023 insurance outlook.

The insurance industry has been resilient by turning headwinds into advantages over the past few years, Joanna said, but challenges including economic recession and lingering COVID-19 concerns remain. With Hong Kong now “back in business”, it is on track to become a global center for insurance and risk management and narrow the local protection gap.

Turning to the evolution of insurance, this will be driven by five key trends:



Overall, insurance companies must constantly challenge their core positions, leverage rather than avoid risk, and create irresistible cultures.

Insights from different perspectives in the insurance ecosystem

Besides, more than 20 speakers from different organizations and expertise have shared their insights from data analytics, financial and actuarial transformation, to strategic ecosystem play, climate change, and GBA opportunities.



L to R:
Joanna Wong, Hong Kong Insurance Leader, Deloitte China; Alfred Cheung, Chairman of the Life Insurance Council InsurTech Task Force, HKFI; Alan Cheung, Senior Director, ASTRI; Sammie Shum, Human Capital Advisory Partner, Deloitte China; and Edward Au, Southern Region Managing Partner, Deloitte China



L to R:
Louis Lee, Insurance Partner, Deloitte China and Jia Woei Ling, Managing Director, North Asia, Databricks



L to R:
Dr Dennis Leung, Director of Customer Advisory, SAS HK; Simon Dai, Hong Kong Actuarial Leader, Deloitte China; Rodney Leung, Head of Financial Data and Analytics Solutions, AIA; and Kerjern Lim, Insurance Director, Deloitte China



L to R:
Gary Ho, Chief Technology Officer, AXA Hong Kong & Macau; Joel Lim, Asia CEO, Coherent; Brad Lin, Risk Advisory Partner, Deloitte China; Sunny Ip, Consulting Partner, Deloitte China; and Candy Ng, Insurance Director, Deloitte China



L to R:
John Sayer, Deloitte CarbonCare Asia Executive Director; Yunqing Zhao, Solution lead, SAP Asia Pacific and Greater China Region; Liza Jansen, Head of Responsible Investment, Prudential; and Francesco Nagari, HK FSI Leader, Deloitte China



L to R:
Anthony Ng, Head of Strategy, Bupa Hong Kong; Sarah Chan, Tax Advisory Partner, Deloitte China; Garry Sien, Global Lead Solutions Architect, Global Financial Services Solutions, Alibaba Cloud (Zoom); and Alvis Kong, Financial Advisory Partner, Deloitte China

Driving sustainability through climate action



In recent years, some multi-national companies that failed to change quick enough to meet new targets on tackling climate change are facing financial and legal risks², prompting global insurers and reinsurers to withdraw from client underwriting and investments.

During the event, Deloitte CarbonCare Asia Executive Director John Sayer shared with the audience that how insurers should play a key role in identifying, mitigating and managing climate risk and contribute to a sustainable transition to net-zero in his sharing session.

Insurance entities increasingly need to consider climate-related factors, including transition risks and opportunities associated with technical innovations and increasing pressure to comply with emerging policy and regulation.

Accurate assessment and reporting of financed emissions from asset investment are critical. Insurers should also stay alert to develop concepts of “facilitated emissions”, attributing carbon emissions to insurance and reinsurance portfolios.

Introducing ONEInsurance



At the closing remarks, Deloitte China Hong Kong FSI Leader Francesco Nagari introduced the **ONEInsurance** initiative with multi-disciplinary offerings and deep synergy with leading ecosystem alliance partners, which are the elements that make what we stand for as a permanent player in the Hong Kong insurance market. A market that will continue to be central in the Greater Bay Area, in Asia and the rest of the world.

Lastly, special thanks to our co-organizer ASTRI and event sponsors: Alibaba Cloud, Aptitude, Coherent, Databricks, SAP and SAS.

2. *No one is ready for the rising tide of climate litigation*, Financial Times

To learn more:



ONEInsurance

An integrated solutions platform for the *Insurer of the future*

Through **ONEInsurance**, insurers can acquire solutions to harness the strategic benefits that could be seized from all of these major industry changes and provide insurance executives with the levers to optimize return on investment and transform their business with a competitive edge.

Curating customized end-to-end solutions, Deloitte's **ONEInsurance** aims to address insurers' signature issues in today's rapidly changing business environment, including end-to-end digital transformation from customer experience to core systems, risk and regulatory compliance, new ESG requirements, products innovation, M&A opportunities for business expansion, and financial and actuarial transformation.



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About Deloitte

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We serve with integrity, uphold quality and strive to innovate. With our professional excellence, insight across industries, and intelligent technology solutions, we help clients and partners from many sectors seize opportunities, tackle challenges and attain world-class, high-quality development goals.

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