HONG KONG: ASIA'S SHIP LEASING CENTRE

Concessionary Tax Regime Applicable to Qualifying Ship Lessors (QSL) and Qualifying Ship Leasing Managers (QSM)

Conditions for being QSL	Conditions for being QSM
▪ Separate entity approach (SPV) ▪ Not a ship operator	▪ Separate entity approach (or "safe-harbour rule")
▪ Central management control ▪ Substantial business presence ▪ Substantial activity *	

Qualifying Activity / Profits for QSL	Qualifying Activity / Profits for QSM
▪ Operating lease or finance lease (including sublease and sales and leaseback arrangement)	▪ Wide range of finance / management activities ▪ Activity must be carried out for QSL

Tax Concession for QSL	Tax Concession for QSM
▪ 0 percent ▪ Capital gain exemption on ship disposal after leasing the ship for a continuous period of 3 years	▪ 0 percent for associated companies and 8.25 percent for non-associated companies

*** Substantial Activity Requirement**

Type of Activity	Average Number of Full-time Employees in Hong Kong	Annual Operating Expenditure Incurred in Hong Kong
Qualifying ship leasing	2	HK$ 7.8 million
Qualifying ship leasing management	1	HK$ 1 million

InvestHK
The Government of the Hong Kong Special Administrative Region

The Growth of Ship Leasing Activities

According to Frost & Sullivan, the total volume of international trade is projected to maintain a steady growth from 2019-2022, at CAGR of 3.8 percent. With some 80 percent of global freight volume carried by water, the stable and sustained growth of international trade volume will stimulate the demand for shipping and ship financing.

Bank lending slumped from US$450 billion in 2011 to US$300 billion in 2018 means that ship owners are looking for alternative financing and ship leasing is becoming a popular form of financing solution (*Menon Economics*). The market size of ship leasing is expected to grow at fast pace at CAGR of 11.4 percent from 2019 to 2022, to US$7.6 billion.

Market Opportunities in Mainland China

With the major contributor to shipowning and shipbuilding activities coming from Asia (e.g. around half of world fleet was owned by Asia, with China alone accounting for 16 percent; China, Korea and Japan together account for over 93 percent of global shipbuilding), ship financing activity is expected to see faster growth in Asia. In 2018, the top five Mainland lessors accounted for 24.5 percent of global leasing marketing by revenue (*Frost & Sullivan*). In 2019, four out of top ten ship finance companies are from the Mainland, with top three are bank-backed leasing houses *(Lloyd's List)*.

Leveraging Hong Kong's Strengths

Hong Kong is an international maritime centre with over 150 years of maritime history. It enjoys competitive advantage in high value-added maritime services with a strong maritime cluster of around 900 shipping-related companies. Coupled with the well-established financial market, Hong Kong is set to tap the fast growing shipping market in China. It is estimated that with the new tax regime, Hong Kong could capture 12 percent of the global ship finance market in ten years' time.

For more information, please contact:

Benjamin Wong
Head of Transport, Infrastructure and Advanced Manufacturing

Tel: (852) 3107 1088
Fax: (852) 3107 9007
Email: bwong@investhk.gov.hk

24/F, Fairmont House,
8 Cotton Tree Drive,
Central, Hong Kong
Tel: (852) 3107 1000
Email: enq@investhk.gov.hk

investhk.gov.hk