



Overview of incentives in Flanders



The incentives listed below are available through various agencies and departments of the Regional Government of Flanders (Flanders) or Federal Government of Belgium (Belgium)

A Grants or subsidies (Flanders)

1 Cash grants of up to 31%

The cash grants policy complies with European Union (EU) law and is similar to that of other regions in Europe.

Eligibility for grants depends on:

- Size of the company (small, medium or large)
- Location of the new entity (development zone or not)
- Amount of the investment (more or less than €8 million)

1.1 Growth premium or call system

- For investments under €8 million
- Applicable only to small and medium sized companies
- Maximum 10% (for small) and 5% (for medium) incentive on net investment

To apply for a grant, a company should file a request through the Government of Flanders website at www.vlaanderen.be/ondernemen or ask Flanders Investment & Trade (www.investinlanders.com)

1.2 Growth premium for strategic projects

- For investments over €8 million
- Applicable to small and medium sized companies with no location restriction and to large companies if located in an EU development zone
- Outside a development zone - maximum 15% (for small) and 7.5% (for medium) incentive on the net investment
- In a development zone - maximum 24/31% (for small and medium sized companies) and 14/21% (for large companies) incentive on the net investment.

Large investments are evaluated by the Government of Flanders and selected on economic and policy criteria. The application must be sent to the Ministry of Economic Affairs at the Government of Flanders. Flanders Investment & Trade can help you with this.



www.flandersbio.be

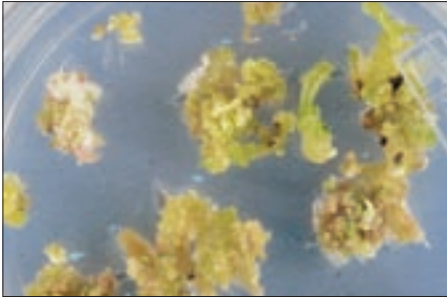


Flanders Investment & Trade
Government of Flanders - Belgium

www.flandersinvestmentandtrade.com



www.vib.be



2 IWT Grants of up to 50%

The IWT (Institute for Science & Technology) (www.iwt.be) provides grants supporting the development of innovative products & processes. The size of the grant depends on:

- The size of the company (small/medium or large)
- The product in development (prototype/fundamental research/mix)

Grants are:

- 25% for prototype development
- 50% for fundamental research
- 37.5% for mixed research (fundamental & mixed)
- 10% add-on for small companies

Maximum amounts are set per year and per company.

The application requires a description of the technology and the expected costs (including personnel costs in FTE). It is reviewed by experts in the field and ranked in priority classes by IWT according to both scientific and economic criteria.

3 Ecological Investment Grants of up to 35%

Ecological investment grants are available for companies irrespective of location. They vary by the size of the company (higher incentives for small and medium sized companies) and can be combined with other grants.

Maximum amounts apply and the level of the grant depends on the technology - up to 35% for small and medium sized companies. Support can be given for:

- Energy investments
- Environmental investments
- Investments due to relocation for ecological reasons.

These will only be granted on the additional extra investment. Extra investments are calculated by comparing the technical merits of the ecological investment (i.e. an investment that ensures a higher level of environmental protection) to a standard investment.

A non-restrictive list of recognized ecological investments can be obtained from the Government of Flanders. Flanders Investment & Trade can help you with this.

Technologies for which no Flemish standards are available can also be granted a subsidy. These should therefore either exceed the approved European standards or have environmental advantages.

B Reductions in social security contributions (Belgium)

1 Structural reduction in employer contributions

The employer's social security contribution (as an average 35% and covering healthcare, retirement, child allowances, unemployment and labor accidents insurance), is reduced for all individual employees by €400 per quarter.

2 Specific reduction plans/employment measures

a *Plus-one-two-three plan*

Companies hiring an "additional" first, second or third employee receive reductions in quarterly social security payments of €1000 or €400 for a specific number of quarters.



b Activa plan

For long-term job seekers – at least 12 months if younger than 45 years, or at least six months if older than 45 years – a reduction in social security contributions of €1000 or €400 can be obtained for a number of quarters.

c Starter jobs

When hiring semi-skilled and unskilled people under 26 years, the employer receives a reduction in the overall social security contribution for each such employee of €1000 or €400.

C Training incentives (Flanders)

1 Individual in-house training

To give job-seekers access to jobs for which they are not fully qualified or skilled, a company can organize job-related or company-related training on the company's initiative at a greatly reduced cost – with the condition that the job-seeker is hired to a full-time job after training.

During the training period (from six to 26 weeks) the company does not pay a wage or salary, but only a productivity premium to the VDAB (Flemish Employment Agency).

The job-seeker/trainee retains his or her benefits income during training and the VDAB pays an additional premium to bring this up to normal wage/salary levels.

2 Training vouchers

To minimize the costs of qualified training at certified training institutes or organizations, companies have access to training vouchers. A maximum of 200 vouchers of €30 each can be obtained per company. The company pays only 50% of that value.

D Tax incentives (Belgium)

The Belgian government provides the following tax reduction measures:

1 Personal tax-related deductions

Reduction in Personal Income Tax for Expatriates

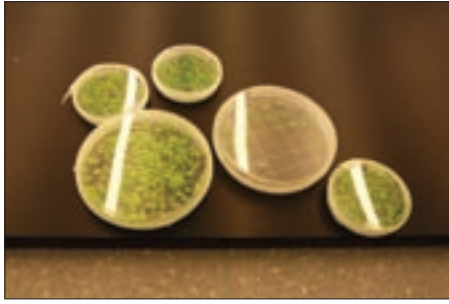
Expatriates can apply for a special ruling, reducing their taxable personal income base by applying special deductions such as tax-free allowance up to €11,250 (€29,750 if the employer is a coordination or R&D center), moving and studying costs and tax equalizations. Expatriates are not taxable on income from outbound activities and are also permitted to opt out of the Belgian Social Security System for a period of five years.

2 Company-related deductions

Measures to reduce the taxable base of a company

2.1 Deductions for R&D personnel

A one-time deduction of €12,180 per capita can be deducted from the taxable base when hiring qualified R&D personnel. The same deduction is applicable for hiring the head of a QA department. This amount is doubled in cases involving a highly qualified PhD researcher.



2.2 Investment deductions

A company can benefit from an investment deduction from its taxable base calculated on the amounts of investments in R&D and energy savings (13.5%).

2.3 Real estate tax exemption for machinery & equipment

Companies located only in Flanders and which own their building, are not liable for real estate taxes on machinery & equipment situated in the building.

2.4 Taxation according to the arm's length principle

The taxable base is calculated according to the arm's length principle. This means that subtraction is made of profit potential that is only attributable to the fact that a company is a member of a multinational group of companies. By means of a tax ruling, it is possible to obtain an upfront downward adjustment of the results as shown in the financial reports.

2.5 Notional interest deduction

Like all Belgian corporate taxpayers, high capital life sciences companies can apply a notional interest deduction on the equity of the company. This is a deemed interest cost on the financing with equity that is deductible from the taxable base. The amount equals a percentage of the equity of the company following the interest rate of a 10 year government bond (3.63% in 2005). As the notional interest is not profit but capital related, large cap companies receive a significant deduction.

3 Other tax-related incentives

3.1 Cost plus rulings

Companies can apply for a cost plus ruling with regard to their inter-company transfer pricing policy where appropriate, taking into account the functions and risks assumed. Cost plus rulings are mostly valuable for group members. The valuation of the cost plus profit must be at arm's length (similar to non inter-company transactions) and is awarded on a case by case basis.

3.2 100% dividend withholding tax exemption between Hong Kong & Belgium

On December 10 2003, an agreement was signed between the Hong Kong Special Administrative Region and Belgium for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital.

This is the first comprehensive Double Taxation Agreement that Hong Kong has entered into and its first step in establishing a network of tax treaties. For Belgium the agreement strengthens an extensive treaty network. It is also the country's first income tax treaty with a non-EU jurisdiction providing for a 100% dividend withholding tax exemption on dividends paid to a company of the other jurisdiction. As Belgium is to date the only European Union member state with this kind of agreement, it offers an excellent entry point for investments, and the opportunity for Hong Kong entities to access the benefits of the European directives, as well as the treaties that Belgium has concluded with non EU-countries.

On March 31 2005 the Belgian Tax Administration confirmed that, notwithstanding the territory-based system of taxation in Hong Kong, income from dividends or permanent establishments in Hong Kong are tax exempted in Belgium.