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Asia-Pacific Region



# Doing Business in Hong Kong



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## Introduction

This guide is written for companies and individuals interested in doing business in Hong Kong. It outlines key facts and figures on Hong Kong's economy, business infrastructure, laws and taxation. This information contained herein is for guidance only and no responsibility for loss from action taken based on any material herein can be accepted. It is recommended readers obtain further information and professional advice prior to making any decision.

## About JHI

JHI is a flourishing worldwide network of approximately 130 member firms in 55 countries. The largest association of its kind, JHI exists to enhance the ability of member firms and their clients to drive business locally and internationally through a variety of distinctive programs and services.

Its members are respected leaders, offering a broad range of accounting, auditing and management consultancy services in every business sector. They play key roles in setting the course for the profession. This extends to JHI members who serve in leading positions with worldwide bodies such as the Forum of Firms, an organization of international firms that perform audits of financial statements that are, or may be, used across national borders. Potential new members are subject to a rigorous selection process based on criteria including the quality of practice, reputation and geographical location.



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# Doing Business in Hong Kong



## JHI in Hong Kong

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# Doing Business in Hong Kong



## Key Facts

**Population:** 7.06 billion  
(in 2009)

**Currency:** HK dollars

**Time Zone:** UTC +8

**Dialling Code:** +852

**Language:** Chinese &  
English

**Fiscal Year:** 1 Apr - 31 Mar

**Business hours:**

0900 - 1700 Monday to Friday  
0900 - 1300 Saturday

**Working week:**

Monday to Saturday

**Public holidays:**

Hong Kong provides two types of public holidays: statutory and general holidays. Statutory holidays are mandated under the Employment Ordinance and must be provided to all employees. General holidays include every Sunday, all statutory holidays and an additional 5 holidays.

Hong Kong is a Special Administrative Region of the People's Republic of China that is governed by the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (Basic Law) which forms a mini constitution for Hong Kong. Under the Basic Law, Hong Kong enjoys a high degree of autonomy except in relation to matters such as defense and foreign affairs. It has its own executive, legislative and independent judicial power, including that of final adjudication. The HKSAR's legal system is firmly based on the rule of law and the independence of the Judiciary. Under the

principle of 'one country, two systems', the HKSAR's legal system is different from that of the Mainland, and is based on the common law and that socialist systems and policies will not be practiced in Hong Kong for a period of 50 years commencing in 1997.

- Head of Government: Chief Executive
- Cabinet: Executive Council
- Legislature: Legislative Council, 60 seats
- Highest Court: Court of Final Appeal

# Doing Business in Hong Kong

## Economy

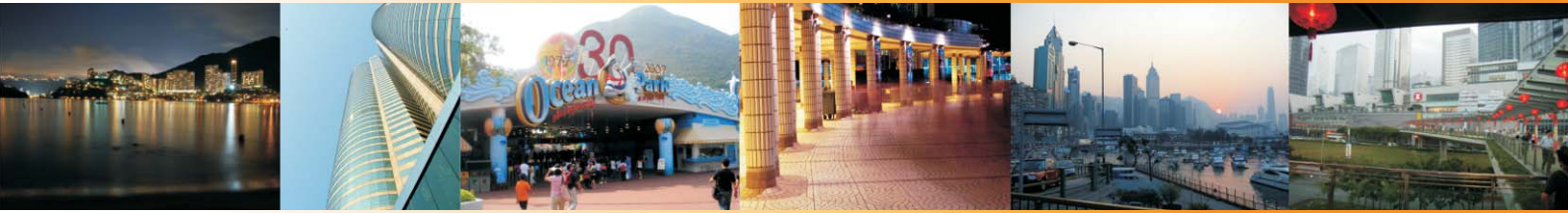
Hong Kong is an attractive place to do business and a leading international trading and service hub as well as a high value-added manufacturing base. It is one of the freest economies in the world and a gateway to investment in China.

The Hong Kong government practices an open and liberal investment policy and actively encourages inward investment. Generally, there are no tariffs or regulatory measures adversely affecting international trade. Hong Kong's continuing success is largely due to a simple tax

structure, low rates of tax, excellent infrastructure and the government's firm commitment to free trade and free enterprise.

- GDP: HK\$ 1,606 billion (2009)
- GDP per capita: HK\$ 229,329 (2009)
- Real GDP growth: -2.7% (2009)
- Labour force: 3.7 million (2009)

# Doing Business in Hong Kong



## Immigration to Hong Kong

Hong Kong is a separate travel area from Mainland China. Hong Kong has visa-free entry for residents from over 143 countries and territories for trips ranging from seven to 180 days. Short-term visitors may conduct business negotiations and sign contracts while entering Hong Kong on a visitor visa or entry permit.

Professionals and businessmen are welcome to work and invest in Hong Kong. While every effort is made to facilitate the entry of visitors and those who contribute to Hong Kong's development and prosperity.

## Visa Requirements

Generally foreign nationals must obtain a visa before coming to Hong Kong to live, work or invest. Below are the main businesses/investment visas:

## Employment Visa

Overseas professionals who possess special skills, knowledge or experience of value to and not readily available in Hong Kong, or who are in a position to make substantial contributions to the economy, may apply to work here under the General Employment Policy (GEP). Applicants must have a confirmed offer of employment, the remuneration package of which must be broadly commensurate with the prevailing market rate of Hong Kong.

The Quality Migrant Admission Scheme has been implemented since June 28, 2006. The scheme is quota-based and operated on a points-based system. It seeks to attract highly skilled or talented persons from the Mainland and overseas to settle in Hong Kong in order to enhance Hong Kong's economic competitiveness in the global market. Successful applicants are not required to secure an offer of local employment before taking up residence in Hong Kong.

# Doing Business in Hong Kong

## Investment Visa

This requires you to be a shareholder of a Hong Kong registered company, either by registering and setting up a company in which you are the major investor or investing in a Hong Kong-based company. You will be required to

produce details on the viability of your proposed business, or your financial position if you wish to make an investment in an existing company.

## Capital Investment Entrant Scheme (CIES)

The Capital Investment Entrant Scheme has been implemented since October 27, 2003. The objective of the scheme is to facilitate the entry for residence by capital investment entrants, i.e. persons who make capital investment of not less than \$ 10 million with effect from October 14, 2010 in permissible investment assets in Hong Kong but would not be engaged in the

running of any business here. Entrants under this scheme are normally allowed to make their choice of investments amongst permissible investment assets without the need to establish or join in a business. Approved CIES applicants are allowed to take up employment or establish a business.

## Dependent Visa

Persons admitted under the aforesaid policy and schemes may also apply to bring in their spouse and unmarried dependent children below the age of 18 under prevailing dependant policy. Persons who are successful in receiving one of the above visas may also bring their spouse and dependent children under the age of 18 to

Hong Kong provided there are sufficient funds and suitable accommodation for them. The limit on their stay is the same as that of the applicant sponsor. Those applicants who continuously live in Hong Kong for 7 years will be granted a permanent residency.

# Doing Business in Hong Kong



## Establishing a business in Hong Kong

### Introduction

Business may be carried out in Hong Kong in various forms:

- Sole proprietorship
- Partnership
- Branch of a foreign company
- Limited company.

### Business Registration

To start business in Hong Kong you must obtain a business registration certificate from the Business Registration Office of the Inland Revenue Department. This applies to all forms of organisation. The annual registration fee payable effective April 1, 2009 is

HK\$ 2,450. The fee payable in respect of business registration certificates with commencement date falling within the period for Aug 1, 2010 to July 31, 2011 has been reduced by a sum of HK\$ 2,000

### Partnerships

The law relating to partnerships is contained in the Partnership Ordinance and the Limited Partnership Ordinance. A partnership must have at least two partners but not more than 20 partners. However, the maximum number restriction does not apply to partnerships formed by solicitors, accountants or stockbrokers.

In an unlimited or ordinary partnership, all the partners are jointly and severally liable without limit for the obligations of partnership. However, limited partnerships may be formed in which at least one partner has unlimited liability while the others have the protection of limited liability but have limited rights to profits and to the capital distribution on dissolution.

They will also have no control over the management of the partnership.

The main cost involved in setting up is the legal fee for drawing up the partnership agreement that defines the constitution of the partnership. Alternatively, an oral agreement between the partners concerned can serve the same purpose. Any terms which are not expressly stated or decided will be governed by the Partnership Ordinance. There are no requirements for a Hong Kong partnership to prepare audited accounts. However, audited accounts are required if one of the partners is a company incorporated in Hong Kong, because that partner has to prepare audited accounts every year.

# Doing Business in Hong Kong

## Branch of a Foreign Company

A branch of a foreign company operating in Hong Kong must be registered under the Companies Ordinance, and has to deliver to the Registrar of Companies the following documents and information:

- A certified copy of the charter, statute or memorandum and articles on the formation and constitution of the company. If these documents are not in Chinese or English, a certified translation of them has to be attached.
  - A list of the directors and secretary.
  - Address of the principal place of business in Hong Kong.
  - Address of the principal place of business and registered office of the company in its place of incorporation.
- The name and address of at least one person resident in Hong Kong authorised to accept the service of process and notices on behalf of the company, and the memorandum of appointment or power of attorney.
  - A certified copy of the latest accounts of the foreign company, unless the foreign company is the equivalent of a Hong Kong private company and is not required by the law of its own country to publish its accounts, and a certified copy of the company's certificate of incorporation together with a certified translation thereof if the certificate is not in English.

An annual return containing information about directors and shareholders must be filed to the Companies Registry by a branch of a foreign company every year. The branch is free to remit its profits to the foreign company.

## Limited Companies

Limited companies are regulated in Hong Kong under the Companies Ordinance, which is based on company law in the United Kingdom. Public companies may offer their shares for sale to the public. Private companies are those which:

- restrict the right of transfer of their shares;
- limit the number of members to 50; and
- may not offer shares for sale to the public.

To incorporate in Hong Kong, a limited company must register its name at, and submit its memorandum and articles of association to, the Companies Registry. The memorandum states the company's name, registered office, authorised share capital and members' liability. The articles define the powers and other internal regulations for the management and procedures of the company. Registration may take up to two weeks. A quicker way to incorporate in Hong Kong is to purchase an off-the-shelf company which has not yet started business. A company must have a registered office in Hong Kong and maintain records such as registers of members, directors and secretaries, and charges and minutes books of meetings. Certain accounting and business records are required to be kept in Hong Kong.

Minimum capital requirements are not imposed on companies except for licensed banks, insurance and deposit-taking companies, and securities/commodities dealers. A company must have at least one directors, one shareholder and one company secretary, whether individual or corporation, but a corporation cannot be a director and company secretary of a listed company. It is not necessary for directors and shareholders to be resident in the territory but many overseas companies appoint local directors and local nominee shareholders to preserve anonymity. However, the company secretary, whether corporation or individual, must be resident in Hong Kong. The cost of formation including professional fees for incorporating a company is set out in our memorandum of fees and charges. For companies with authorised capital over HK\$10,000, an additional capital fee at the rate of 0.1% is payable and subject to a maximum fee of HK\$ 30,000 per case. Annual returns containing information about directors and shareholders must be filed with the Companies Registry by a company incorporated in Hong Kong every year. A Hong Kong company can freely remit tax-free dividends out of retained profits to an overseas investor.

# Doing Business in Hong Kong



## Foreign Investment

The Hong Kong government takes an active but low interference policy. It also adopts a simple tax system with a low tax rate. There is no restriction on foreign investment. There is no exchange control on foreign investment. Given the highly externally oriented nature of the economy, a linked exchange rate system was introduced in late 1998 under which the US dollar exchange rate was fixed at HK\$ 7.8 to US\$ 1.

# Doing Business in Hong Kong



## Commercial & Residential Property

Most properties in HK, commercial and residential, are leasehold. As HK land system is a leasehold system, all land in Hong Kong is held from the Government by way of a "land grant" known as Government (formerly Crown) lease. All owners have covenanted under Government leases to pay a rent to the Government in return for the occupation or use of the land leased. The rent payable is determined at 3% of the rateable value of the property as at the date of renewal. It will remain unchanged until the property is redeveloped in which case the rent is 3% of the rateable value of the new building. There is no restriction on the kind of

entity which owns property, whether an individual or a company, whether resident or not. Foreigners can freely buy or invest in property market. It will usually be possible to borrow money from banks and other lending institutions by offering the property as security. Financing is probably up to 70% of purchase price. Other than 1% agent fee, there are stamp duty of up to 4.25% and legal costs. In all probability anyone seeking to acquire property will usually be introduced to it by an Estate Agent acting on behalf of the owner, through whom negotiations will be conducted. Survey is not legally required.

### Property Tax

Property tax is charged on the owner of land and/or building situated in Hong Kong and is computed on the net assessable value at a standard rate of 15%. The net assessable value is after a statutory deduction of

20% for repairs and outgoings on the reduced amount of total rental income less rates paid by the owner in respect of the land and/or building and irrecoverable rent.

# Doing Business in Hong Kong



## Employment

Manpower is Hong Kong's most treasured asset and key to the HKSAR's economic competitiveness. The Government seeks to ensure that the workforce remains dynamic, well-motivated, adaptable and provided with the means for continuous improvement. The Employment Ordinance is the main legislation governing conditions of employment in HKSAR. It covers a comprehensive range of employment protection and benefits for employees. It governs the employment of children, a person under the age of 15 years, in all economic sectors; and regulates the hours of work and the general conditions of employment of young people - someone over the age of 15 years but under the age of 18 years - in industrial undertakings.

There is no other legal restriction on the number of hours of work. Wage rates differ among various economic sectors, depending on the level of skills and experience required. The government has not imposed any legal minimum wage.

The labour relations scene in Hong Kong is always placid compared with several other nations in Asia. Industrial harmony is reflected by the small number of working days lost due to industrial conflicts - among the lowest in the world. In the case of labour disputes, the Labour Department offers a conciliation service to the parties concerned to facilitate an amicable settlement.

# Doing Business in Hong Kong



## Taxation in Hong Kong

### Profits Tax

People – including companies, partnerships and individuals – carrying on business in Hong Kong are liable to tax on profits arising in or derived from Hong Kong. The maximum profits tax rate for corporations is 16.5% and 15% for unincorporated businesses.

**Deductible items include:**

- all expenses incurred in the production of assessable profits
- losses of the company (may also be carried forward indefinitely)
- capital allowances on capital expenditure (varying between 4% - 20%) and plant and machinery and computer equipment, up to an immediate write off of 100%

- certain trademark and patent registration fees
- contributions to an employee retirement scheme, up to specified limits
- some costs attributable to scientific research

**Exempt items:**

- interest income, other than that received by financial institutions, and dividends received from corporations
- capital gains

There are no foreign exchange restrictions on the outward remittance of profits. An individual or company can freely remit its share of profits to other countries.

### Salaries Tax

All income of individuals arising in, or derived from, Hong Kong, from any office, employment or pension, including income derived from services rendered in Hong Kong, is subject to salaries tax. An expatriate employee employed by a local employer has no salaries tax liability if he visits Hong Kong for not more than 60 days in a tax year. Where an expatriate employed by a foreign employer renders services in Hong Kong during visits exceeding 60 days in a relevant year of assessment, only that part of his income attributable to services rendered in Hong Kong during his visits is subject to salaries tax. Income includes the value of

accommodation provided rent-free by an employer or the excess of the value over the rent actually paid by the employee to his employer for the accommodation, subject to a maximum of 10% of the employee's total income from the employer. Deductions allowable from income include personal, wife, child, dependent parent / grandparent / brother / sister, disabled dependent parent / spouse / child / grandparent / brother / sister and single parent allowance, self education expenses, elderly dependant in institutional care allowance and home mortgage interest.

# Doing Business in Hong Kong

In addition, Hong Kong has no sales tax, no withholding tax and no tax on an individual's estate.

There is no capital gains tax and no dividend withholding tax. Dividends received are not chargeable to tax and dividends paid are not deductible.

Tax losses from carrying on a trade, profession or business may be carried forward indefinitely. However, the Inland Revenue Department may disallow the losses if there is a change in shareholding and the sole or dominant purpose of the change is to enable the new shareholders to utilise the tax losses.

There are certain receipts deemed by the IRO to be derived in Hong Kong. These include royalties received

for the use in Hong Kong of a patent, trademark, know-how, copyright or film. These deemed receipts if paid to non-residents are subject to withholding tax. The assessable profit is deemed to be 30% of the payment except in the case when the sum is derived from an associate, then 100% of the payment will be assessable. A person may apply to the Commissioner of the Inland Revenue, subject to payment of fees and certain regulations, for an advance ruling on how any provision of the IRO applies to him or the arrangement specified in the application.

## VAT and Customs Duty

### Customs Duties

There is no tariff on goods entering Hong Kong but excise duties are charged on four groups of commodities, whether they are imported or manufactured locally, for domestic consumption. These

commodities are certain hydrocarbon oil (motor spirit, aircraft spirit and light diesel oil), liquor with alcoholic strength more than 30% by volume, methyl alcohol and tobacco.

### Clearance of Goods

Under the Dutiable Commodities Ordinance, the Customs and Excise Department (C&ED) controls distilleries, tobacco manufacturers, liquor manufacturers, oil depots, and industrial and commercial establishments dealing in dutiable commodities; and supervises licensed, general bonded and public bonded warehouses. The supply and

storage of duty-free ships' stores and aircraft stores are also under the control of the C&ED. Licences are issued to those who import, export, manufacture or store dutiable commodities. The C&ED also assesses the first registration tax of vehicles under the Motor Vehicles (First Registration Tax) Ordinance.