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COUNTRY

Doing Business in
Hong Kong

Preface

This guide has been prepared by Baker Tilly Hong Kong Limited, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Hong Kong.

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Doing Business in Hong Kong has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Hong Kong matters can be obtained from Baker Tilly Hong Kong Limited; contact details can be found at the end of this guide.

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Contents

	Page
1 Fact Sheet	3
2 Business Entities and Accounting	5
3 Finance and Investment	7
3.1 Exchange Control	7
3.2 Banking and Sources of Finance	7
3.3 Tariffs	8
3.4 Foreign Investment Incentives/Restrictions	8
4 Employment Regulation and Social Security	10
4.1 Entry Visa and Work Permit Requirements	10
4.2 Hiring Local Employees	10
4.3 Working Hours	11
4.4 Paid Annual Leave	11
4.5 Wages and Salaries	11
4.6 Pensions	11
4.7 Others	12
4.8 Trade Unions	12
4.9 Social Security System	12

	Page
5 Taxation	13
5.1 Corporate and Individual Taxation	13
5.2 Profit Tax	13
5.3 Salaries Tax	13
5.4 Property Tax	14
5.5 Double Taxation	14
5.6 Other Taxes That May Affect Foreign Investors	14
5.7 Rates of Tax	14
5.8 Tax Year	15



1 Fact Sheet

Geography

Location	Hong Kong is situated at the south-eastern tip of Mainland China, within five hours from all of Asia's major business centres. It is recognised as one of the world's most dynamic cities due to its world class infrastructure and services
Area	1,104km ² covering Hong Kong Island, Kowloon and the New Territories and islands
Land boundaries	Hong Kong covers Hong Kong Island, Lantau Island, the Kowloon Peninsula and the New Territories, including 262 outlying islands. Between Hong Kong Island and the Kowloon Peninsula lies Victoria Harbour, one of the world's most renowned deep-water harbours
Coastline	733km
Climate	Tropical monsoon – warm, sunny and dry in autumn; cool and dry in winter with temperatures dropping below 10°C; and hot, humid and rainy from spring to summer with temperatures exceeding 31°C
Terrain	Hilly to mountainous with steep slopes; lowlands in the north. Natural terrain covers about 60% of the total land area. The boundary between development area and natural terrain is about 2,000km long
Time zone	GMT +8

People

Population	7 million (in 2008). The majority of residents are of Chinese descent; foreign nationals comprise 5%
Ethnic groups	Asian, including Filipino, Indonesian, Indian, Nepalese, Japanese, Thai, Pakistani, Korean, Eurasian and European
Religion	Hong Kong residents enjoy religious freedom. Religions practised in Hong Kong include Buddhism, Taoism, Confucianism, Christianity, Islam, Hinduism, Sikhism and Judaism
Language	Chinese and English are the official languages. Cantonese is the most commonly spoken Chinese dialect and is understood by 97% of the population. Most Hong Kong people have tri-lingual skills with English widely used in government and by the legal, professional and business sectors. Putonghua is spoken by many people and is commonly understood by an increasing number

Government

Country name	Hong Kong, Special Administrative Region of the People's Republic of China (HKSAR)
Government type	A Special Administrative Region of the People's Republic of China. Following British rule from 1842 to 1997, China assumed sovereignty under the "one country, two systems" principle. The HKSAR's constitutional document, the Basic Law, ensures that the current political situation will remain in effect for at least 50 years, until 2047
Capital	None
Administrative divisions	<p>The main administrative and executive functions of government are carried out by 12 policy bureaux and 58 departments and agencies, staffed mostly by civil servants.</p> <p>The civil service employs approximately 155,000, or about 4% of Hong Kong's workforce. Apart from administering public services, its main tasks are to assist the chief executive and principal officials in formulating policies and implementing decisions</p>
Political situation	Political freedom is guaranteed by the Basic Law, which came into effect when China resumed sovereignty of Hong Kong in mid-1997 and serves as the SAR's constitutional framework. Its underlying premises are best summed up as "one country, two systems" and "no change for 50 years". Post-1997, Hong Kong inherited the laws of the former colony and today continues to benefit from a stable and mature legal system, covering such business critical areas as intellectual property

Economy

GDP – per capita	US\$30,840 (2008)
GDP – real growth rate	+3.2% (2008)
Labour force	3.69 million (February 2009)
Unemployment	5% (February 2009)
Currency	Hong Kong dollar (HKD)

2 Business Entities and Accounting

Investors have a wide range of business vehicles to choose from; all enterprises are subject to the same rules.

Requirements for establishing a business in Hong Kong are simple and straight forward; the type of structure that is most appropriate will depend on tax issues, strategic plans and financial modules, among others.

The most common forms of business vehicles for foreign investors are:

Private limited companies

A foreign company or individual can incorporate a wholly-owned Hong Kong company.

Companies incorporated may be public or private and may be limited by shares or by guarantee. The vast majority of companies in Hong Kong are private companies limited by shares.

A Hong Kong company requires only one shareholder and one director who can be the same person or entity. There are no residency requirements.

Branch offices of overseas companies

Where a company incorporated outside Hong Kong establishes a place of business or branch office in Hong Kong as an extension of the investing company, it is referred to as an "overseas company". Unlike a subsidiary, a branch can leverage off the credit rating and background of the overseas owner.

Partnerships/sole proprietorships

These bodies do not have a separate legal entity, therefore the sole proprietor or partners are personally liable for the debts and liabilities of the business. In the case of limited partnerships (which are rare), liability is limited to the partners.

Joint ventures (JVs)

JVs are created when two or more JV partners want to undertake business together. Each JV partner will contribute certain resources in return for shares and/or a percentage of profits.

All limited companies incorporated under the Companies Ordinance are required to keep proper books and records, prepare annual accounts and have them audited by a certified public accountant. Partnerships and sole proprietorships have no statutory obligation to have their annual accounts audited, except for stockbrokers, commodities dealers and insurance companies.

The directors are responsible for preparing the accounts annually, having them audited and laying these accounts before the shareholders in the annual general meeting (AGM), together with the directors' report.

For a public or listed company, the audited financial statements must be lodged with the Registrar of Companies within four months of the financial year-end. A private company is not required to file its audited financial statements with the Registrar of Companies.

Hong Kong has a reputation for quality financial reporting and implementing a best practice corporate governance regime. The Hong Kong Financial Reporting Standards (HKFRS), which are issued by the HKICPA, have been fully convergent with International Financial Reporting Standards (IFRS) since January 2005. This uniform accounting platform, well understood by global investors and financial analysts, facilitates the comparison of corporations and their results in different jurisdictions and leads to greater confidence in the transparency and quality of Hong Kong's financial markets.

To maintain an effective, transparent and accountable regulatory regime for the accountancy profession that is on a par with international standards, the Legislative Council of the HKSAR enacted the Financial Reporting Council Ordinance on 13 July 2006, providing a statutory basis for establishing the Financial Reporting Council (FRC). This is a new statutory body to investigate audit irregularities and non-compliance by listed companies in Hong Kong of statutory, accounting and stock exchange rules.

Documents presented to the Hong Kong government can be written in either Chinese or English.

3 Finance and Investment

3.1 Exchange Control

There is no exchange control in Hong Kong. In general, funds can be remitted into or out of Hong Kong without any restriction. The Hong Kong dollar is pegged to the US dollar at a fixed exchange rate of HKD7.80 to US\$1.

3.2 Banking and Sources of Finance

Hong Kong is one of the world's leading financial centres. It is home to many local banks, as well as branches and subsidiaries of foreign banking institutions. Virtually all key players have established a presence in Hong Kong to participate in the fast growing trading and capital raising activities here and in Mainland China. As a result, Hong Kong has a pool of talented professionals, a mature and well-respected regulatory framework and a wide variety of creative services and products at competitive prices.

Hong Kong does not have a central bank and there are three note-issuing banks. Deposit taking institutions in Hong Kong are classified into three separate groups: licensed banks, restricted licence banks and deposit taking companies. The Hong Kong Monetary Authority is the licensing and supervising authority for all three types of authorised institution. There are also many merchant banks that provide a range of financial services such as corporate financial advice, loan syndication and other related services.

The securities markets are under the supervision of the Securities and Futures Commission (SFC) which administers the Securities Ordinance, the Securities (Disclosure of Interests) Ordinance, the Securities (Insider Dealing) Ordinance, the Commodities Trading Ordinance and the Protection of Investors Ordinance.

The Hong Kong Stock Exchange (HKEX) is the stock exchange of Hong Kong. Hong Kong Exchanges and Clearing is the holding company for the exchange.

HKEX facilitates new issues and the listing of commercial securities. Companies can apply to be listed either by public listing, placement or introduction.

The Growth Enterprise Market (GEM) was set up to provide an alternative market for listing shares, particularly for smaller and technology focused companies. The listing requirements are less onerous than for the main market, in particular in relation to a profits record. However, subsequent reporting requirements are more demanding.

The SFC exercises supervisory authority over the securities, financial, investment and commodities futures industry in Hong Kong. The Hong Kong Securities Clearing Company operates the Central Clearing and Settlement System, which is an automated book-entry system that handles the settlement of securities.

In 2008, 47 companies listed on the Main Board and two companies on the GEM. Total capital raised, including post-listing funds, reached HKD427.2bn. The number of companies listed on the Main Board and GEM were 1,087 and 174 respectively as at 31 December 2008.

3.3 Tariffs

Hong Kong levies import and excise duties on spirits, tobacco, hydrocarbons and soft drink products.

Hong Kong has bilateral investment promotion and protection agreements with 15 countries: Australia, Austria, Belgium/Luxembourg, Denmark, France, Germany, Italy, Japan, Republic of Korea, the Netherlands, New Zealand, Sweden, Switzerland, Thailand and the United Kingdom.

The HKSAR is a founding member of the World Trade Organisation (WTO) and Hong Kong participates as a full and separate member in the Asia-Pacific Economic Co-operation (APEC) and the Pacific Economic Cooperation Council (PECC) under the name of Hong Kong, China. Approximately 84% of Hong Kong's external trade was conducted with the other 20 member economies of APEC in 2006.

3.4 Foreign Investment Incentives/Restrictions

Hong Kong's strategic location and its world class infrastructure and services have propelled it into the ranks of a handful of "world cities".

The top five factors attracting companies to establish their regional headquarters or regional offices in Hong Kong are:

- Free flow of information
- Low and simple tax system
- Independent judiciary
- Absence of exchange controls
- Excellent communications, transport and other infrastructure.

Hong Kong stands out as a beacon of free trade in goods and services. The environment, especially for global services providers, in many parts of the region is restrictive for non-national companies.

Hong Kong has been a free port for more than one and a half centuries. Its position as the most important regional headquarter location in Asia Pacific is likely to strengthen in coming years.

4 Employment Regulation and Social Security

4.1 Entry Visa and Work Permit Requirements

In general, unless a person has the right of abode or right to land in the HKSAR, they require an entry visa/permit to work, study, establish, or join in any business, take up residence, or to stay in the HKSAR as a visitor longer than the allowed visa free period.

An application for an entry visa/permit to enter Hong Kong for employment or investment will be favourably considered if the applicant is in a position to make a substantial contribution to the country.

Criteria to be considered include:

- Whether there is a genuine vacancy for an employee in Hong Kong
- What skills, knowledge and experience are needed for the job
- Whether the terms and conditions of employment are comparable to those in the local market
- Whether the applicant is suitably qualified and has experience relevant to the job
- Whether the job can be filled locally.

4.2 Hiring Local Employees

The Employment Ordinance is the main piece of legislation governing conditions of employment. It covers a comprehensive range of employment protection and benefits for wage protection, rest days, paid annual leave and sick leave, maternity protection, termination of an employment contract and the operations of employment agencies.

In addition, the Employees' Compensation Ordinance establishes a no-fault, non-contributory employee compensation system for work injuries. Employers must be in possession of a valid insurance policy to cover their liabilities both under the Employees' Compensation Ordinance and at common law for any work injuries to their employees.

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in the workplace, both industrial and non-industrial. Essentially, it is an enabling ordinance setting out requirements in general terms.

4.3 Working Hours

There are no statutory restrictions on the hours of work for employees aged 18 and over. Employees must be granted at least one day off in every seven day period.

4.4 Paid Annual Leave

Employees are entitled to at least seven days' paid annual leave after completion of 12 months' continuous employment. The Employment Ordinance also provides a minimum requirement that an employee is entitled to one extra day of annual leave for each completed year of employment commencing from the third year, up to 14 days per year in total.

4.5 Wages and Salaries

There is no statutory minimum wage (except for domestic servants recruited from countries such as Thailand, Philippines and Indonesia).

4.6 Pensions

The government does not provide a central pension scheme. However, the Mandatory Provident Fund Schemes Ordinance and the subsidiary legislation set out the standards and requirements governing the operation of a privately managed Mandatory Provident Fund (MPF) system. It is compulsory for all employers to provide MPF to their employees aged 18 to 65. Expatriates who work in Hong Kong for less than 13 months, or who are members of retirement schemes in a place outside Hong Kong are exempted from joining the MPF schemes.

Both the employer and the employee are required to contribute 5% of the employee's monthly income to the MPF scheme. The maximum level of monthly income for calculating the contribution is HKD20,000. However, both the employer and the employee can make voluntary contributions in excess of this mandatory requirement.

Mandatory contributions and the derived benefits must be preserved until an employee attains the retirement age of 65. Early withdrawals are permitted under the following circumstances:

- Early retirement after reaching the age of 60
- Death or total incapacity
- Permanent departure from Hong Kong.

4.7 Others

There is no statutory requirement regarding medical, dental, housing, travelling, bonus, or commission payment. These depend on the remuneration package negotiated. Larger and international corporations tend to offer a more comprehensive remuneration package than smaller local companies.

4.8 Trade Unions

Although there are over 755 registered trade unions in Hong Kong, the participation rate is only 21.09%. Labour relations are generally harmonious. The HKSAR adopts a *laissez-faire* policy; they rarely interfere in the marketplace. One of the main responsibilities of the Hong Kong Labour Department is to maintain and promote harmonious labour relations in the non-government sector.

4.9 Social Security System

Under the Registration of Persons Ordinance, all residents in Hong Kong aged 11 and above are required to register for an identity card, except those who are exempted or excluded.

With the thumbprint templates stored in the chip of the identity card, cardholders may enjoy convenient immigration clearance via the Automated Passenger Clearance System and the Automated Vehicle Clearance System.

5 Taxation

5.1 Corporate and Individual Taxation

Hong Kong has a simple tax system in which only specified types of income, namely profits, salaries and property rental income, are taxable. This simple and low tax system is a great attraction to foreign investors.

Hong Kong operates a territorial basis of taxation under which taxes are only imposed on profits or income with a Hong Kong source. Foreign-sourced income is not taxable, whether remitted to Hong Kong or not.

Hong Kong's fiscal year runs from 1 April to 31 March.

The principal direct taxes are profits tax on business profits, salaries tax on salaries and property tax on income from property.

Hong Kong does not have any capital gains tax, withholding tax on dividends and interest, inheritance tax, value added tax, or social security contributions. Few items attract duty.

The following provides an overview of Hong Kong's main direct taxes.

5.2 Profit Tax

Profits tax is charged only on net profits arising in or deriving from Hong Kong, from a trade, profession, or business carried on in Hong Kong.

Incorporated and unincorporated businesses are taxed at different rates – incorporated businesses at 16.5%; unincorporated at 15% (2009/10).

Profits tax is charged on the basis of profits actually made in the accounting year ending in the assessment year, which runs from 1 April to 31 March.

5.3 Salaries Tax

Salaries tax is charged on emoluments arising in or derived from Hong Kong. The basis of assessment and method of payment (including provisional payments) are similar to the system for profits tax. It is calculated on a progressive rate.

Taxpayers receive their salary gross, tax is not deducted. Salaries tax is demanded on a yearly basis and is normally paid in two instalments between January and April.

Foreign nationals who spend no more than 60 days in Hong Kong and who have a work base outside Hong Kong in any year of assessment, are exempt from salaries tax.

5.4 Property Tax

Property tax is charged at a standard rate of 15% on rentals received less rates and an allowance of 20% for repairs and maintenance.

Again, the system of provisional payment of tax is similar to that for profits tax and salaries tax.

For corporations, rental income is included in their profits tax calculations so they are not subject to property tax.

5.5 Double Taxation

Hong Kong's tax basis is territorial. Therefore, income derived by a resident from places outside Hong Kong will generally not face double taxation in Hong Kong.

Hong Kong has double tax arrangements for shipping and airline income with a number of countries and comprehensive double tax agreements with the Mainland of China, Belgium, Thailand, Luxembourg and most recently Vietnam.

5.6 Other Taxes That May Affect Foreign Investors

In addition, the government collects revenue through estate and stamp duties, entertainment, airport and betting taxes, business registration, rates, and import and excise duties. Hong Kong has no interest or capital gains tax. If the income does not fall into one of the three schedules it is not taxable. Dividends are exempt from tax.

5.7 Rates of Tax

Profits tax	16.5% (2009/10) for corporations, 15% (2009/10) for un-incorporated businesses
Salaries tax	Progressive rates from 2% to 17% (2009/10) capped at a standard rate of 15% (2009/10) applied to net total income before personal allowances
Property tax	15% (2009/10)

5.8 Tax Year

The tax assessment year runs from 1 April to 31 March and this period must be used for all tax returns and assessments for salaries tax and property tax. For purposes of profits tax, however, a company, partnership, or sole proprietor may use a different accounting year, and the basis period for a particular year of tax assessment is the accounting year ending within the assessment year.

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