

Doing Business in Hong Kong

Special Administrative Region

People's Republic of China



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GENERAL INFORMATION

Geography

Hong Kong is a Special Administrative Region of the People's Republic of China ("China") situated on the southeast coast of China. Its strategic location in the heart of Southeast Asia combined with its industrious population and free market policies have produced an impressive rate of economic growth over many years.

Climate

Hong Kong's climate is sub-tropical, with the year broken into a hot summer and a mild, generally dry winter. Summer falls from May to September, with temperature ranging from 26°C to 33°C and humidity often in excess of 80%. With the effects of global warming, the temperature from December through March rarely drops below 10°C and the mean temperatures are around 12°C - 20°C. Tropical cyclones are most likely to affect Hong Kong between July and September bringing heavy rains and gale force winds.

Population

The Present population is approximately 7.5 million.

Language

English and Chinese (Cantonese) are the two official languages of Hong Kong but English tends to be the language of commerce. Cantonese, a Chinese dialect and the mother tongue of the majority of the Hong Kong population, is however the most widely spoken dialect. Mandarin (Putonghua), the official language of China is now being spoken by a growing number of residents.

Currency

The legal tender of Hong Kong is the Hong Kong dollar (HK\$), with 100 cents to the dollar. The banknotes are issued in denominations of \$10, \$20, \$50, \$100, \$500 and \$1000. Since 1983, the Hong Kong dollar is pegged to the US dollar at HK\$7.80 to US\$1.00 (with slight fluctuation). The HK\$ is a freely convertible currency.

REGULATORY ENVIRONMENT

The Basic Law

Hong Kong is a Special Administrative Region (“HKSAR”) of the People’s Republic of China that is governed by its constitutional document, the Basic Law. The Basic Law prescribes that social and political systems of Hong Kong enjoys high degree of autonomy for a period of 50 years. The Basic Law guarantees the independence of Hong Kong’s judiciary and apart from foreign affairs and defence, gives Hong Kong citizens full responsibility to manage their own affairs. It allows Hong Kong complete financial autonomy, and independence of its monetary system. It establishes Hong Kong as a separate customs territory, and enables it to work directly with the international community to control trade in strategic commodities, drugs, illegal transshipment, and to protect intellectual property rights.

The Chief Executive

The Chief Executive is the head of the Hong Kong. His appointment is through the Central People’s Government of China and is elected by an Election Committee in accordance with the Basic Law. He is responsible for the implementation of the Basic Law and other laws that apply in Hong Kong which include formulating government policies and approving bills and budgets.

Executive Council

Members of the Executive Council (“Exco”) are appointed by the Chief Executive. The current membership comprises 15 principal officials and 16 non-official members, which includes Chief Secretary for administration, the Financial Secretary, and the Secretary for Justice.

Legislative Council

The Basic Law provides that the Hong Kong Special Administration Legislative Council (“Legco”) shall be constituted by election. The method for the Legco formation is to be specified in the light of the actual situation in Hong Kong and in accordance with the principle of gradual and orderly process. Currently, it comprises of 60 members, with 30 members elected by geographical constituencies through direct election. A further thirty members are elected by functional constituencies representing sectors that are substantial and of importance to the community, such as finance, trade, labour and other professionals sectors.

Through a system of committees, Legco members perform the important roles of scrutinizing bills, controlling public spending, and monitoring the government’s performance.

The Judiciary

The judicial system operates on the principle, fundamental to the common law system, of the independence of the judiciary from the executive and legislative branches of government. The courts make their own judgments, whether disputes before them involve private citizens, corporate bodies or the government itself. The independence of the Judiciary is provided for by the Basic Law. The Court of Final Appeal is the highest appellate court in Hong Kong. It is constituted by the Chief of Justice, three permanent judges and one non permanent Hong Kong Judge or one judge from other common law jurisdiction. The Chief Justice is the head of the Judiciary. He is assisted in the overall administration by the Judiciary Administrator and the supporting team.

THE ECONOMY

Hong Kong is strategically located at the doorway to the Mainland of China. It is also in the international time zone that bridges the time gap between North America and Europe. Both attributes have reinforced Hong Kong's position as a global centre for finance, business and communications. Hong Kong is ranked the seventh-largest trading entity in the world. It operates the busiest container port in the world in terms of throughput, and the busiest airport in the volume of international cargo handled. It is the world's fourth-largest banking centre in terms of external banking transactions, and the fifth-largest foreign exchange market by turnover. Its stock market has Asia's second-largest market capitalisation.

Hong Kong owes its strength to sound economic fundamentals, a large fiscal surplus and strong foreign exchange reserves, business-friendly government policies, a competent workforce complemented by a pool of efficient and enterprising entrepreneurs, a superb network of transport and communications infrastructure, a high degree of internationalisation, and open financial markets. Adding to these are a low taxation system, free and fair market competition, a fully convertible and stable currency, tight fiscal discipline, a well-supervised banking sector, sound monetary system and a comprehensive legal framework. The World Economic Forum ranks Hong Kong as the world's second most-competitive economy, while the US Heritage Foundation ranks it the freest economy in the world.

The Service Sector

The service sector has flourished and diversified in types of activities due to the structural change in the economy. The major components of Hong Kong's trade in services are civil aviation, shipping, travel and tourism, trade-related services and various financial and banking services. The service sector as a whole accounted for about 55.1% of the total employment, within this total, the wholesale, retail, import and export trade, restaurants and hotels was the largest employer in the service sector, accounting for 32.8% of the total employment in 2009.

The Manufacturing Sector

Since China introduced economic reform policies in 1979, a large part of the manufacturing firm has moved its manufacturing base to China. Those manufacturing operations staying in Hong Kong are generally higher value-added or higher technology nature, along with continued mechanisation and wider application of computer-aided technologies in the production process.

Hong Kong's economy is expected to become more service-oriented and to be less reliant by manufacturing. Over the last two decades, there has also been a substantial increase in invisible trade and investment flows between Hong Kong and China. Hong Kong is a major service centre for China generally and South China in particular, providing a wide range of financial and business support services like banking and finance, insurance, accounting, transport, warehousing etc. It is also a principal gateway to China for business and tourism.

Trade and Industry

Hong Kong's continued success as a leading commercial and trading centres owes much to a simple tax structure and low tax rates, a versatile and industrious workforce, an excellent infrastructure, free flow of capital and information and the government's firm commitment to free trade and free enterprise. The government believes its task is to facilitate commerce and industry within the framework of a free market. The HKSAR maintains no tariffs and no regulatory trade and investment measures other than those required to discharge its international obligations or to protect health, the environment and access to high technology.

The government's industrial policies aim to promote industrial development by creating a business-friendly environment and providing adequate support services. The government zones land for general and specialised industrial use, maintains and develops advanced education and training facilities, ensures a modern legislative and regulatory environment, funds facilities to enhance productivity and quality as well as encourage applied research. It also encourages technology transfer through an investment-promotion programme. However, the government neither protects nor subsidises any specific industries.

FINANCIAL ENVIRONMENT

Financial Market

Hong Kong's monetary policy objective is currency stability and is pegged against the US dollar at a fixed exchange rate of approximately HK\$ 7.80 to US\$1 since October 1983. The Hong Kong dollar remains generally stable due to the high Hong Kong's Exchange Reserve Fund. As a global financial centre, the Government of the Hong Kong Special Administrative Region does not intervene the market activities and thus provides an excellent platform for investors. The objective of the government is to provide a pertinent legal, regulatory, infrastructural and administrative framework to the investors. The government believes by providing a level of playing field for all market participants and maintain the stability of the financial and monetary systems will enable Hong Kong to become one of the most effective and efficient major financial centers in the world. Policies such as no restriction on capital flows, minimal barrier entries to the market, no foreign exchange control and low taxation are developed by the government to create a safe haven for investors to diversify their offshore or onshore assets.

Stock Market

As an important banking and financial centre in the Asia Pacific region, Hong Kong Stock Exchange ranks the second in Asia and the sixth in the world in terms of market capitalization. A wide variety of products are traded in the stock market, ranging from ordinary shares to options, warrants, unit trusts and debts securities. A second market, namely the Growth Enterprise Market (GEM), was established in November 1999 to provide an alternative fund raising channel for emerging growth companies. In December 2010, the total market capitalization of Hong Kong's stock market reached US\$2,685 billion and is noted to be one of the largest venture capital centers in Asia.

Banking

Hong Kong also has a very strong presence of international financial institutions and is highly open. At the end of 2010, there were 281 authorized financial institutions in Hong Kong.

Foreign Exchange Control

The Hong Kong dollar remains generally stable due to the high Hong Kong's Exchange Reserve Fund. There is no foreign exchange control in Hong Kong and the objective is currency stability. There are no regulations and restrictions imposed by the government for foreign investment in Hong Kong. The foreign exchange market is mature in Hong Kong. In the absence of foreign exchange controls in Hong Kong and favorable time zone location, it enables traders to deal 24 hours around the world.

EXPATRIATE WORKING IN HONG KONG

Work Permit

Non-Hong Kong residents are required to apply for a working permit to work in Hong Kong. The VISA should be obtained prior to taking up the assignment in Hong Kong. Foreigners may work or invest in Hong Kong if they possess a special skill, knowledge or experience of value to and not readily available in Hong Kong, or if they can make a substantial contribution to the economy. The Hong Kong Company will sponsor the individual for his or her employment in Hong Kong.

The department applies the policy in a flexible manner. Genuine businessmen and entrepreneurs are welcome to establish a presence in Hong Kong, bringing with them capital and expertise. Qualified professionals, technical staff, administrators and managerial personnel are also admitted with minimum formalities.

Employment

It is customary for an employment contract to be entered into when hiring an employee. The contract should specify position, salary and other minimum standard of employment as required by the Hong Kong Employment Ordinance, such as annual leave entitlement, sick leave and maternity leave.

Retirement Benefits

It is a statutory requirement to employee and employer to contribute 5% each of the monthly salary under the Mandatory Provident Fund Scheme, subject to a maximum contribution of HK\$1,000 each per month.

Expatriate Schooling

A variety of international schools are open to students of all races. The Hong Kong International School (based on the American system), the German-Swiss International School, the French International School, the Hong Kong-Japanese School, and a variety of schools established by other nationalities serve these international students at both the primary and secondary levels.

Cost of Living

The largest single living expense likely to be encountered in Hong Kong is rent – currently the highest in Asia outside of Japan. An unfurnished 1,000 square foot apartment relatively close to the central business district costs between HK\$30,000 and HK\$40,000 per month. Rents vary according to area, age of building and view. For those visiting Hong Kong on an extended business trip, “leave flats” are available for periods of up to three months (longer in some cases).

BUSINESS ENTITIES

Forms of Business Entities

The following are the principal forms of business entity through which business is undertaken in Hong Kong:-

- Private Limited company
- Branch of a foreign corporation incorporated outside of Hong Kong
- Public Limited Company
- Sole Proprietorship or partnership

Companies incorporated in Hong Kong are governed by the Companies Ordinance. The Ordinance also regulates the activities of companies incorporated outside Hong Kong but trading in the territory through a branch.

The most usual form of business entity is the limited liability company, in which the shareholders' liability is limited to the amount paid or unpaid, if any, on the shares held by them.

Business Registration

All enterprises, whether of limited or unlimited liability, are required to register their presence. Under the Business Registration Ordinance, any person carrying on a business of any sort is obliged to register with the Business Registration Office of the Inland Revenue Department and pay the annual registration fee of HK\$450.00 for the year of 2010/2011. Registration alerts the tax authorities, who will then require the proprietor to declare the profits earned and subsequently issue a tax demand.

Formation Procedures

Incorporation

The whole process of incorporation takes about 5 days if there is no identical name being used but “shelf companies” may be acquired immediately.

Shelf Companies

To circumvent the delays involved with company formation, many professional accounting firms have at their disposal ready-formed companies with standard memoranda and articles. The name of the company can be changed by due process at a later date, if required.

Shareholders and Directorship

There are no restrictions on foreigners forming companies in Hong Kong and no residency requirement for directors or shareholders (all or any of which may be either corporate or natural persons).

Cost of Incorporation

The total cost of incorporation, including all government fees, printing charges, the cost of the statutory books (share register, minutes books, and so forth) and common seal, presently is around HK\$7,000. This cost includes the capital duty when the authorised capital is HK\$10,000 or less; in other cases, the capital duty will be an additional cost at HK\$1 for every increment of HK\$1,000 above HK\$10,000 in authorised capital, subject to a maximum of HK\$30,000 for an unlimited amount of authorized capital.

Statutory Requirements

Registered Office

Every company is required to maintain a registered office in Hong Kong and at which are kept the statutory records.

Auditors

Auditors must be appointed annually and an Annual General Meeting (AGM) is required every calendar year.

Company Secretary

Every Hong Kong incorporated limited company must have a company secretary, who must be resident in Hong Kong.

Director and Shareholder

The directors and shareholders of a Hong Kong company are not required to be Hong Kong residents. A company may be incorporated with one member, and companies which are not part of a listed group may have a single director.

General Meetings

A company is required to hold a general meeting every calendar year at an interval of not more than fifteen months.

The directors are required at least once in each calendar year, to lay before the shareholders, in a general meeting, the financial statements with the directors' report and the auditors' report containing certain minimum stipulated information regarding the conduct of the directors and the company during the preceding period.

Branch Office

If an overseas corporation intending to set up business in Hong Kong and operate through a branch office, it must be registered under the Business Registration Ordinance and Companies Ordinance. Generally, there is no limitation of the scope on most of the businesses except for certain types of regulated business activities. A certificate of registration shall be issued to and the name of the company will be registered as overseas companies if the Company Registrar is satisfied with the conditions set out by the respective Ordinance.

Limited Company

Most of the companies in Hong Kong are incorporate as limited companies aim a majority of foreign investment will incorporate a wholly-owned Hong Kong subsidiary as a limited company. Limited companies can be classified into 2 categories; public limited companies and private companies. From the perspective of a foreign investor, one of the advantages of a subsidiary arrangement is that liability is limited to the parent company in relation to operations carried on by the Hong Kong subsidiary. Those companies listed on the Stock of Exchange are public companies.

Partnership

Under the Hong Kong Partnerships Ordinance, when a relation between persons carrying on a business in common with a view of profit, it is deemed to be a partnership, provided that it is not a joint stock company or an incorporated company. A partnership can be either a general partnership or a limited partnership. Partnership is usually governed by a partnership agreement however it does not need to be registered. It has to be registered under the Business Registration Ordinance. In a general partnership arrangement, the maximum number of partners in a partnership is 20 and each partner is jointly liable with all the other partners for all debts and obligations of the partnership incurred.

TAXATION

The Hong Kong tax system is territorial in nature. Tax is charged according to the nature on income arising in, or derived from Hong Kong. Generally, profits tax is charged only on profits arising in Hong Kong from a business carried on in Hong Kong whereas income derived from a source outside Hong Kong is generally not taxable. Hong Kong does not impose, any payroll, value added tax, capital gain and inheritance tax. The major taxes are set out below:

1. Profits tax;
2. Salaries tax;
3. Property tax; and
4. Stamp duty

Profits Tax

Profits tax is levied on all types of business entities, including sole proprietorships, partnerships and corporations carrying on a trade, profession or business in Hong Kong. Foreign companies operating in Hong Kong are subject to profits tax in the same manner as domestic companies. Profits tax is levied on Hong Kong - source profits of businesses carried on in Hong Kong. In determining the source of profits, consideration will be given to the operations of the taxpayer which gave rise to the profit and where those operations took place. All expenses wholly and exclusively incurred in the production of assessable profits are allowed for Profits Tax purpose. Corporations are subject to profits tax at a rate of 16.5%.

Taxable Treatment of Branches and Subsidiaries

- No difference in the tax treatment between branches and subsidiaries of a foreign owned company as branches and subsidiaries are subject to Profits Tax in the same way of they have profits from a Hong Kong source.
- If a company fails to keep adequate accounting records for its branch office, the Inland Revenue Department (IRD) may charge profits tax based on the followings:
 - (1) By using the branch accounts of the business;
 - (2) By establishing a percentage turnover made by the branch as compared to the corporation as a whole;
 - (3) By estimating the percentage of profits attributable to the branch office in Hong Kong.

Dividend Income

- Dividends are exempt from profit taxes

Capital Gains

- Generally, capital gains on disposal of real estate or shares are non taxable unless the disposal is trade in nature.

Income from Intellectual Property

- If the payments for the use of intellectual property are made to a recipient carrying on a business in Hong Kong, and the intellectual property is registered in Hong Kong, the full amount is subject to profits tax after attributable expenses are deducted.
- Royalty income in respect of the intellectual property is taxable even though the intellectual property is used outside Hong Kong.
- Income derived from the exhibition of use of, or right to use video and audio products such as television films and sound recording is deemed taxable in Hong Kong.
- Income derived from the use of or the right to use trademarks, patents and etc. is also taxable.

Special Classes of Businesses

- Insurance companies, ship and aircraft owners, financial institutions, clubs and trade associations are regulate by specific legislation and rules.

Deductions

- Expenses are generally deductible if they are incurred in the production of profits that are deemed taxable. Certain items are non deductible, such as domestic or personal expenses, capital expenditure and capital losses, rent and other expenses of property not used for the purpose of producing profits, and sums recoverable under an insurance policy.
- In some cases, a company s profits are derived from both Hong Kong and non - Hong Kong sources, which the expenses are not deductible under the profits tax, these items shall be added back to increase the assessable profits.

Interest Expenses

- Generally, interest is deductible if it was for the production of taxable income. However, some conditions precedent must be met.

Depreciation

- Depreciation accounted for in the financial statements is not tax deductible. Rather the legislation provides depreciation allowances on the plant and machinery, buildings and other structures that have been used to generate assessable profits.

Plant and Machinery

- In general, for regular purchases of plants and machinery, depreciation allowances are granted as follows:
 - > Initial allowance - 60% of the cost of the acquisition.
 - > Annual allowance - As of ease for calculation, the IRD adopts the pooling system. Under the pooling system, annual allowances are computed in a single amount for all assets within the class. Based on the nature of the assets, allowances are granted according to the categories which are 10%, 20% and 30% of the written down values.
 - > For new purchase on plant and machinery specifically related to manufacturing, and to computer hardware and software for research and development service, a 100% deduction is granted.

Industrial Building

- Lower of the construction cost of the industrial building or the amount paid to the developer for constructing the buildings are the bases on calculating industrial building allowances. The calculation particularly excluded the cost of the land. In general, the allowances granted are as follows:
 - > Initial allowance - 20% of the qualifying value.
 - > Annual allowance - 4% of the qualifying value.

Commercial or Residential Building

- A commercial building allowance is granted at the annual rate of 4% of the construction cost of commercial buildings and structures.

Renovation to Building

- Cost incurred for renovating hotels or non residential premises is entitled to a 5 year deduction at an annual rate of 20% of renovation cost.
- Cost incurred for renovating residential premises is entitled to an allowance at an annual rate of 4% on the renovation cost.

Tax Treatment of Losses

- Loss incurred by a business may carry forward and set off against future taxable profits of the Business without any time limitation.

Group Loss Relief

- There are no provisions made against any loss relief for different members of the same group and there is no provisions made against the filing of the consolidated returns for groups.

Withholding Taxes

- Generally, there is no withholding tax in Hong Kong. Incomes such as interest, commissions, rents and dividend are paid at the gross to the beneficiary. Whether the beneficiaries are residents or non-resident, there is no requisite on this issue.

Relief from Double Taxation

- In general, double tax relief is not a major issue to Hong Kong as Hong Kong - source income is subject to Hong Kong tax only. However, if a foreign tax is imposed on the Hong Kong – source income, in some cases it may be treated as deductible expenses i.e. interest income.

- To minimize double taxation between Hong Kong and Mainland of China, an arrangement was issued in 1998 and was revised in 2006 giving a broader scope which strengthens Hong Kong's attractiveness as the gateway to the Mainland of China. With respect to the arrangement, a tax credit shall be granted to income which is subject to tax in both Hong Kong and Mainland of China, However, the arrangement does not provide for the exchange of information.
- Hong Kong has also entered into treaties with various countries regarding mutual tax exemptions on shipping and aviation incomes.

Filing of Tax Returns

- Upon issuance of the profits tax returns by the IRD on the first working day of April each year, it is required to be completed the returns within one month. An extended period for filing the returns will normally be granted to companies whose financial years end between December 1 and March 31.
- Audited financial statements together with the profits tax return of a company incorporated in Hong Kong must be submitted to the IRD. However, for company's gross annual income which does not exceed HK\$500,000, audited financial statements do not need to be filed with the return. The audited financial statements however, should be retained for examination if necessary.
- The Hong Kong tax begins April 1 and ends the following March 31. Taxable income of a company whose accounting year is different from the above is calculated on the basis of the annual accounting period ending within the tax year.

Salaries Tax

Salaries tax is levied on income from any office or employment (including salary, fees, commission, bonus, gratuities, allowances) which arises in or is derived from Hong Kong.

In addition to cash salary, the following items are also included in taxable remuneration

- > Cash allowances;
- > Benefits convertible to cash;
- > Education benefits;
- > Payments by employers with respect to employees personal liabilities;
- > Transfers of assets to employees at less than their real value; and
- > Stock options gains.

Generally, employment will be considered to be fundamentally based in Hong Kong if the employer is resident in Hong Kong or if the contract of employment is negotiated and enforceable in Hong Kong and the remuneration is payable there in Hong Kong currency. In this case, all of the remuneration will be subject to salaries tax unless no employment duties are performed in Hong Kong during the year of assessment.

Exempt Income

- The following three types of employment income are exempt from salaries tax:
 - > Any employer—paid traveling expenses used for holiday travel
 - > Any employer—paid transportation and freight expenses to move an employee, his or her family, and household effects to and from Hong Kong; and
 - > Housing provided by an employer, whether in the form of free accommodation or a refund to the employee to a landlord under a lease agreement.

In the case of housing, although amounts paid as a refund of an employee's rent are free of tax, a taxable benefit on employer-provided accommodations is included in the employee's taxable income. The taxable benefit is the lower of the following:

- > The ratable value of the premises occupied by the employee; or
- > A percentage of the other taxable remuneration derived from the employer or an associated company of the employer. The percentage to be applied in computing the benefit is 10% of the salary.

Basic Allowance

- In general, an allowance amounted to HK\$100,000 is available to all individuals for the 2010/2011 year of assessment.

Calculation on Salaries Tax

- There are two methods to calculate an individual's salaries tax liability.
 1. The income subject to salaries tax is reduced by personal allowances before the tax rates are applied and is charged on progressive rates as follows:

Progressive Salaries Tax Rates for 2010/2011	
	Rate (%)
On the first HK\$40,000	2%
On the next HK\$40,000	7%
On the next HK\$40,000	12%
On the remainder	17%

2. The income subject to salaries tax is 15% to the individual's net assessable income before deduction of personal allowances for the 2010/2011 year of assessment.

Filing of Tax Returns

During April of each year, the IRD issues tax returns to individual taxpayers which require them to report each type of income earned to the IRD. After examining the tax returns, the IRD will issue tax assessment for individual tax.

Property Tax

Property tax is imposed on the owners of land and buildings in Hong Kong for amounts earned from renting the land and buildings. Property occupied as a private residence is exempt from property tax. Property occupied or used by a taxpayer for business purposes that generate income subject to profits tax may also be exempted. However, even if property tax must be paid, it can be offset against the profits tax liability.

Property tax is charged on the owner of any land or buildings in Hong Kong at the standard rate (15%) on the net assessable value of such land or buildings.

Stamp duty

Stamp duty is chargeable under the Stamp Duty Ordinance. Stamp duty is charged on transfer of documents with respect to shares, securities or land and buildings situated in Hong Kong. The rate of stamp duty on transfers of immovable property varies according to the fair value of the property, as follows:

Rates of duty on property consideration	2011/2012	2010/2011
Up to HK\$2,000,000	HK\$100	HK\$100
HK\$2,000,001 - \$3,000,000	1.50%	1.50%
HK\$3,000,001 - \$4,000,000	2.25%	2.25%
HK\$4,000,001 - \$6,000,000	3.00%	3.00%
HK\$6,000,001 - \$20,000,000	3.75%	3.75%
HK\$20,000,001 and above	4.25%	4.25%

Transfers of stock and share are charged at the rate of 0.2% of the consideration of the stock and share. Stamp duty on lease of immovable property varies from 0.25% to 1% of the average yearly rent depending on the length under the lease.

FINANCIAL REPORTING

Companies incorporated in Hong Kong are required to have their financial statements audited in accordance with the Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services and Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The HKFRS are converged with International Financial Reporting Standards ("IFRS").

The Hong Kong Companies Ordinance and Hong Kong Financial Reporting Standard set out the disclosure requirements for financial statements. In addition, companies listed in Hong Kong must adhere to the regulations set out by the Hong Kong Stock Exchange and Clearing.

ADVANTAGES OF DOING BUSINESS IN HONG KONG

Low and Predictable Taxes

Hong Kong is profound for its simple and low tax system. There is no goods and services tax and only income sourced in Hong Kong is taxable. Dividend income is tax free in Hong Kong. There is no withholding tax for the distribution of dividend. The tax rate is currently 16.5% for corporations. Salaries tax is 15% in 2010-2011.

No Foreign Exchange Control

No foreign exchange control policy is imposed in Hong Kong. There are no particular regulations imposed in restricting foreign investment in Hong Kong.

Minimal Customs

As a duty free port, there is no custom tariff and goods imported or exported require minimal customs. There are no specific requirements in applying licenses for importing and exporting of goods entering or leaving Hong Kong. However, domestic consumption taxes do apply to some imports such as cars, tobacco, alcoholic beverages, methyl alcohol, and hydrocarbon oil.

International Banking System

Hong Kong is one of the global banking centers with major licensed banks available in the market. Banks are independent of the Government, and foreign banks are free to operate with only limited restrictions. It has world class banking facilities and has 79 representatives from the world's 100 largest banks.

Gateway to Mainland China

Closer Economic Partnership Arrangement (CEPA)

China and Hong Kong signed the Closer Economic Partnership Arrangement (CEPA) in 2003; further liberalize trading business between Hong Kong and China. CEPA, is a free trade deal which offers favourable trading and investment conditions to Hong Kong - based companies interested in exporting goods, or expanding business, into Mainland China. This policy is non-nationality specific. This makes Hong Kong an attractive location for overseas companies interested in expanding into China.

CEPA is expected to help expand the business scope allowable in China for Hong Kong - based companies and lower the thresholds for them to set up business or provide services there. At present, all products of Hong Kong origin, except for a few prohibited articles, can be imported into the mainland tariff free under the CEPA. In the future, there will be liberalization measures extend across other service areas.

Dividend Income from Subsidiary Companies in China

The withholding tax rate on dividend distributed to Hong Kong resident company is 5% of the distribution under the tax arrangement with Hong Kong.

International Financial Hub

Rapid development of FEC and the opening up of its financial sector have presented unprecedented opportunities for Hong Kong's financial services sector. Through the Qualified Domestic Institutional investors Scheme, the Hong Kong government actively facilitates Mainland enterprise and investors to participate in Hong Kong's stock market and invest directly in securities in Hong Kong. Apart from this the Hong Kong government will upgrade the market infrastructure, promote financial intermediation, encourage financial reform and launch new financial products to attract more overseas enterprise to list in Hong Kong.

The Hong Kong Government also envisions Islamic finance offers huge potential for development and position Hong Kong as an Islamic financial platform specifically in developing an Islamic bond market. With this regards, the Hong Kong Monetary Authority has set up a dedicated team to study related issues and make recommendations for early introduction of Islamic debt offering in Hong Kong.

Transparent Legal System and Stable Society and Government

One of the major reasons for international corporations choosing Hong Kong as their regional head quarters or offices is because the legal system in Hong Kong is stable, transparent and fair. Common law principles apply in Hong Kong and most of the policies are based on the legislation of the UK, the US and Australia. Hong Kong also has an open free society, independent judiciary and free press. The Independent Commission Against Corruption enforces the Government and companies deals fairly and honestly and Hong Kong has been rated as one of the least corrupted places in Asia.

Few Controls on Business

There are no restrictions on capital movement into and out from Hong Kong together with high degree of transparency and efficiency on business regulations, investors can set up companies in Hong Kong with ease.

Free Flow of Information

Almost the world's major news agencies such as Reuters, Dow Jones Newswires, Bloomberg and Agence France - Presse, have maintained a presence in Hong Kong as financial information, news and data are freely circulate and distribute. The reason is because Hong Kong enjoys a constitutionally - guaranteed free press and freedom of speech. The government has not implemented any policy to interfere the circulation of both local and overseas publications. In addition, the government has not adopted any policy to filter the internet access.

Skilled Workforce

Hong Kong retains a computer - literate, well-educated and adaptable workforce. Labour relations are generally harmonious. The working culture in Hong Kong is resilient, flexible and industrious. English is the language of the business and service industries. The government is promoting life-long learning through community colleges and tertiary institutions.

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