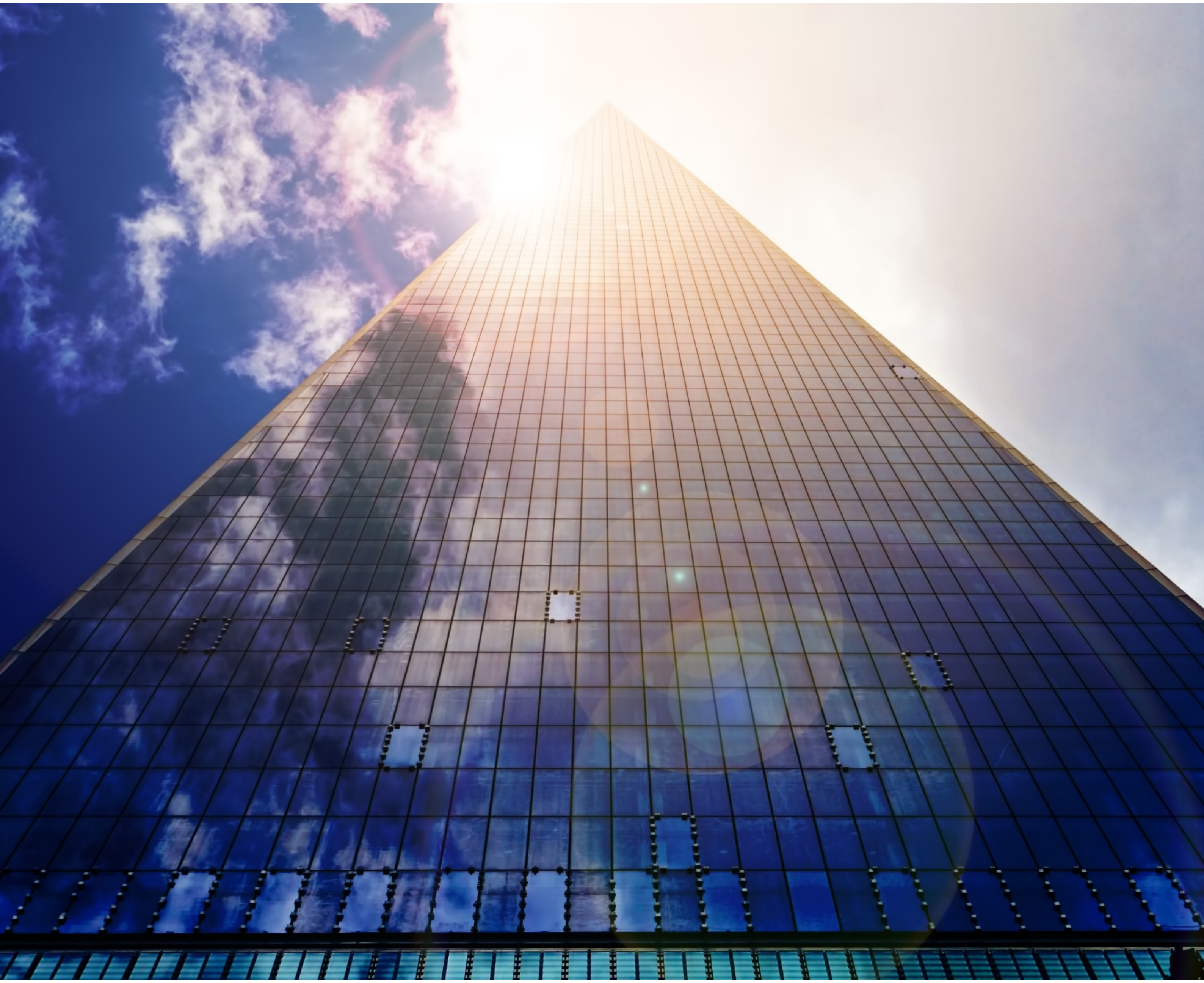
PKF Hong Kong

Doing Business in Hong Kong

Year 2021



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Foreword

This publication provides an overview of the most important aspects of doing business in Hong Kong. It is designed to provide information on major issues that foreign investors should consider when investing in or through Hong Kong.

Hong Kong is a major financial and trading centre in the world and has been serving as the gateway into the People's Republic of China ("PRC") for more than a century and a half. Many foreign investors choose Hong Kong as their stepping-stone for entering the PRC because she possesses the freest economy in the world and the talents who have a good understanding of both Chinese and Western cultures.

PKF Hong Kong, formerly known as H. L. Leung & Company, was established in 1968 by Mr. Henry Leung. After more than 50 years of development, it has grown to become one of the most reputable accounting firms in Hong Kong with more than a hundred professional staff providing a full range of services. The firm has also set up its Shenzhen office in 2006 to offer one-stop cross-border business solutions.

By utilizing the PKF International network and with our good understanding of Chinese culture and business environment, we provide comprehensive services with a tailored approach to our clients of different sizes, including listed companies, small and medium enterprises ("SMEs"), IPO candidates, non-profit organisations, public bodies and high net worth individuals, helping them in setting up their business and exploring opportunities in Hong Kong and the PRC.

We look forward to cooperating with you and assisting your business to grow and achieve success in the future.

Demographic and Environmental Overview

Geography and Population

Hong Kong consists of Hong Kong Island, Kowloon Peninsula, the New Territories, Lantau Island and more than 260 outlying islands. It is long established as the southern gateway of the PRC and the trading hub in Asia Pacific region. Hong Kong is one of the most densely populated cities in the world with approximately 7.5 million people living in an area of less than 426 square miles. Although above 90% of local residents in Hong Kong are ethnic Chinese, there is a substantial number of expatriates living in the city.

Communications and Transportation

In Hong Kong, there is a comprehensive network of internal and external communication systems and one of the world's safest, efficient and frequent public transport systems. There is a wide range of wireless communication options, including Wi-Fi hotspots and tourist SIM. In addition, there is an extensive railway network covering the majority of places in Hong Kong.

Exchange Controls and Currency

There is no exchange control in Hong Kong. The official currency in Hong Kong is the Hong Kong dollar (HK$), which is pegged with the US dollar at HK$ 7.8 per US$ 1. Due to the close economic relationship between the PRC and Hong Kong, some shops in Hong Kong also accept Renminbi ("RMB"), the official currency of the PRC.

Official Languages

Chinese and English are both official languages of Hong Kong. All government documents are available in Chinese and English versions, and English is the major working language which widely used in commercial activities and legal matters.

Political System

After 156 years of British administration, the Government of the PRC resumed the sovereignty of Hong Kong on 1 July 1997 and established the Hong Kong Special Administrative Region on the same day. Thereafter Hong Kong has become a special region of the PRC with a high degree of autonomy in both legal and administrative affairs.

The PRC Government assures through the enactment of the Basic Law that the PRC system shall not be practised in Hong Kong and that the way of life in the territory shall remain unchanged for 50 years (i.e. up to the year 2047). With this “One Country, Two Systems” policy, Hong Kong continues as a low tax, free port and capitalist territory.

The Basic Law further provides, inter alia, that:

1. Hong Kong is vested with executive, legislative and independent judicial powers including that of final jurisdiction.

2. Hong Kong retains its status as an international financial centre. Its free market in foreign exchange, gold, securities and futures continue. There is free flow of capital within, into and out of the territory. Hong Kong dollars continue to circulate freely and remain freely convertible.

3. The current social and economic systems in Hong Kong remain unchanged. Private property, ownership of enterprise, legitimate right of inheritance and foreign investments are protected by law.

4. Hong Kong maintains the status as a free port and except a number of items, does not impose any tariff.

5. The laws previously in force in Hong Kong are maintained.

Above all, apart from the replacement of a new national flag, there is not much change in Hong Kong. Hong Kong is still one of the few governments in the world that practices free trade policy. There are no restrictions on foreign investment, and investors can freely repatriate capital and profits into and out of Hong Kong. Hong Kong does not impose foreign exchange control and has a simple tax regime. It also continues to adopt the well-established common law legal system, which is very familiar to that in many of the home countries of the foreign investors. Both foreign and local corporations are registered under the same rules and subject to the same sets of business regulations and taxes.

Regulatory Environment

The administration of Hong Kong is headed by the Chief Executive appointed by the PRC Central Government. The Chief Executive appoints members of the Executive Council, which is a think tank for formulating government policies for the territory. The Legislative Council is the legislative body responsible for passing Hong Kong laws and controlling expenditure of the Hong Kong Government.

Although Hong Kong returned to the PRC in 1997, Hong Kong still retains its own legal system. The British common law system is still practiced in the territory. The judiciary is independent of the Legislative and Executive Councils, and its judges are drawn from Commonwealth jurisdictions as well as from Hong Kong itself. Cases are heard in English and/ or Chinese.

Economics

Hong Kong is widely recognized as one of the major financial and trading centres in the world. The economic success of Hong Kong is mainly attributable to its adoption of a simple tax regime with low tax rates and free trade policy. There are no barriers to trade, no restrictions on inward or outward investments and no nationality restrictions on corporate or sectoral ownership. Hong Kong has been ranked as one of the world's freest economy by the studies done by various international authorities, such as the Heritage Foundation from the United States and the Cato and Fraser Institutes of Canada.

Equity Financing

Venture Capital

Venture capital, also known as "direct investment" or "private equity", is a means of providing long-term equity to young and fast-growing companies. Venture capitalists inject funds into a targeted company in exchange for a proportion of its equity. They are prepared to assume higher risks by investing at the early stage of a company's development in return for a higher return resulting from the company's future success.

Due to the lack of a strong track record, start-up companies usually find it difficult to obtain funds from banks and financial institutions to finance the expansion of their business. Venture capitalists can assist these companies in this regard by injecting capital into them. They usually require board representation and will take an active interest in the investee companies' affairs. Apart from the provision of equity funds, some professional venture capitalists will also provide advice on business strategy, management, organization and financial system, etc. to assist companies' growth.

Hong Kong Venture Capital Association was established in 1987 with the objective of promoting and protecting the interests of the venture capital industry in the territory. Hong Kong's private equity industry is in the centre of this exciting area and has historically been the gateway to the PRC. Hong Kong bourse remains the clear favorite for Chinese companies and the main exit route for private equity investors in the PRC.

Listing

Public listing is an effective means of raising capital and expanding business. Besides providing access to capital for growth, a listing also offers various benefits to a company, including broadening the shareholders' base, improving corporate transparency, gaining higher publicity and providing motivation to employees through share option schemes, etc.

The Hong Kong stock market is ranked amongst the top 10 in the world in terms of market capitalization. With the rapid growth of the PRC economy and the strong funding needs of Chinese enterprises, the Hong Kong stock market is expected to grow drastically in the near future.

Depending on the operating history and financial status, companies may either choose to list its shares on the Main Board or the Growth Enterprise Market ("GEM"). GEM was established in 1999 with the objective of providing a more favorable marketplace for new and high growth companies to raise funds for business development. Companies seeking to list on the Main Board will be subject to stricter requirements including a three-year solid track record of trading and income earnings. Hong Kong Exchanges and Clearing Limited is the company responsible for governing the operation of the Hong Kong stock market.

Debt Financing

There are various banks and financial institutions in Hong Kong which provide a wide range of financial services to business entities. These include:

Overdraft and Revolving Credit Facilities

An overdraft facility is usually used for financing short-term needs such as payment of salary, utility bills, rentals, and other routine overhead expenses. Interest is only charged on the utilized debit balance, which is reduced at any time at the borrower's discretion through cash deposits.

Term Loans

A term loan is a loan that has a fixed repayment period and either a fixed or a floating interest rate. It is more suitable for financing medium to long terms needs, as the borrower can budget his future cash flows according to his needs. When applying for a term loan, the bank will usually request the company (the applicant) to provide its property or asset as collateral. In addition, it may also request personal guarantees from the directors or shareholders.

Hire Purchase and Leasing

Instead of purchasing machinery or assets in cash, it is very common for a company to purchase fixed assets through hire purchase or leasing arrangements. Alternatively, a company can enter into a "sales and lease-back" arrangement with a bank whereby the company sells its existing equipment to the bank and leases it back. Both arrangements can ease cash flow burdens by matching the lease payments against the revenue generated from the equipment.

Invoice Factoring

Invoice factoring, also known as accounts receivable factoring, is a financing service that allows a company to sell its accounts receivables to a bank or financial institution for immediate funding. Banks or financial institutions usually buy receivables from companies at a discount and then collect the full amounts when the receivables fall due. The difference is treated as a finance charge payable or factoring fee for the financing arrangement. Invoice factoring enhances a company's cash flows by utilizing funds that are normally tied up in receivables.

Grant and Incentives

To support the SMEs, the Hong Kong Government has established the following funding schemes to help SMEs cope with challenges and seize opportunities:

SME Loan Guarantee Scheme (SGS)

The SGS aims to help SMEs secure loans from participating lending institutions for:

i. Acquiring business installations and equipment related to the applicants' business operation; or

ii. Meeting their working capital needs of general business uses.

The overall objective is to assist SMEs to enhance productivity and competitiveness.

SME Export Marketing Fund (EMF)

The EMF aims at helping SMEs with a good track record expand their business through participation in export promotion activities. The EMF provides financial assistance to SMEs for their participation in overseas trade fairs or exhibitions, as well as local trade fairs or exhibitions, which are export-oriented. Applicants are required to seek the Trade and Industry Department’s approval for any other forms of participation. Since 9 April 2020, SMEs participating in virtual exhibitions organized by Government-related organizations or reputable exhibition organizers with good track records are eligible for funding support under the EMF.

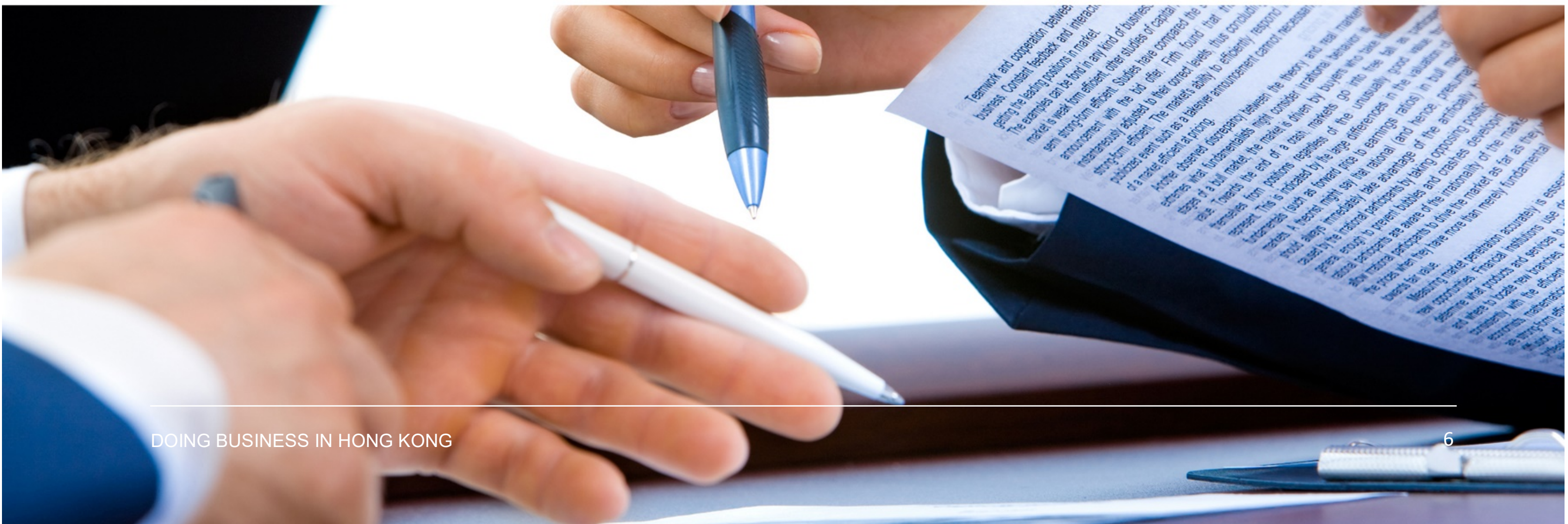
Securities, Acquisitions and Mergers

In Hong Kong, it is more common for acquisition of business to take place in the form of a purchase of shares of a targeted company instead of a purchase of business and assets of a targeted company.

Financial activities in Hong Kong are regulated by the Securities and Future Commission and the Stock Exchange of Hong Kong.

Takeover and merger activities undertaken by public companies in Hong Kong are governed by the Codes of Takeover and Mergers and Share Buy-backs (“the Takeover Code”), the Companies Ordinance (“CO”), the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“the Listing Rules”) and the Securities and Future Ordinance.

New measures have recently been introduced to encourage intra-group amalgamation in Hong Kong. To ease the costly and tedious court-sanctioned procedure involved for amalgamation, the New CO has introduced a new court free statutory amalgamation procedure in respect of wholly-owned intra-group Hong Kong companies. Under the new legal regime, the relevant procedure is relatively straight forward and mostly requires the passing of certain specific resolutions at the all amalgamating companies’ level to approve the transaction, the issuing of directors’ solvency statements certifying that all the companies involved in the amalgamation in the opinion of the relevant directors are solvent, and the circulation of notices to inform the creditors/ public of the proposed amalgamation.



Consumer Protection

Intellectual Property Protection

Hong Kong has established a strong framework of intellectual property law, including the Patents Ordinance, the Trade Marks Ordinance, the Registered Designs Ordinance and the Copyright Ordinance, which aims to reach the highest international standards, and put Hong Kong at the leading edge of intellectual property development and protection.

Furthermore, there are special departments within the Hong Kong Government responsible for the protection of intellectual property, including the Intellectual Property Department and Custom & Excise Department which are responsible for advising on policies and legislation to protect intellectual property in Hong Kong and investigating complaints alleging infringement of trademarks and copyright respectively.

Consumer Protection Legislation

In Hong Kong, there are different types of legislation in place to protect consumers, for example the Consumer Goods Safety Ordinance imposes a duty on manufacturers, importers and suppliers of certain consumer goods to ensure that the consumer goods supplied are safe for incidental purposes; the Weights and Measures Ordinance gives consumers protection against fraudulent or unfair trading practices in connection with quantity; and the Toys and Children's Products Safety Ordinance regulates toys that are manufactured, imported or supplied for local consumption. In addition to the above, the Consumer Council was also established in Hong Kong to enhance consumer welfare and empower consumers to protect themselves.

Forms of Business Organisations

Limited Liability Company

A private limited liability company incorporated in Hong Kong can be limited by shares or by guarantee. A company limited by guarantee does not declare dividends and is therefore usually set up as a non-profit organisation. A private company limited by shares is the most common form of business vehicle for carrying on business in Hong Kong.

The procedures for setting up a limited liability company by shares in Hong Kong are relatively simple:

i. Before a company is incorporated, incorporation documents must be filed with the Companies Registry. The Companies Registry provides a one-stop platform for company and business registration service. A person who submits an incorporation form of a company at the Companies Registry will be deemed to have made a business registration at the same time. The registrar will reject a proposed name if it is identical to or is likely to be confused with another company name already registered.

ii. There is a statutory minimum requirement of one shareholder and one director for setting up a private limited liability company. Anyone (corporation or natural person) can be a shareholder and director of a Hong Kong company; provided that at least one director must be a natural person. There is no restriction on foreigners holding shares in Hong Kong companies. Shares can be registered in the name of persons residing outside Hong Kong.

iii. A Hong Kong company is required to have a statutory secretary. It also must have an address in the territory and the statutory secretary has to be a Hong Kong resident if it is an individual. Where a corporation acts as the statutory secretary, it must have its registered office or place of business in Hong Kong.

iv. There is no requirement as to the minimum amount of share capital. As such, many Hong Kong companies are established with a paid-up share capital of HK$ 1 only. But it is sometimes necessary for a Hong Kong company to have a larger share capital in order to fulfill the asset backing requirement of bankers, business partners, customers, etc.

v. It generally takes around one week to incorporate a limited liability company. However, there are also some “ready-made” companies in the market, which are available for immediate use.

vi. A Hong Kong company generally has to hold an Annual General Meeting of shareholders every financial year. An Annual General Meeting, however, can be dispensed with by a resolution approved by all shareholders. Directors' meetings can be held anywhere. Shareholders' meetings can also be held outside Hong Kong provided that there is nothing to prevent this in the Articles of Association. The minutes of meetings are often prepared by a professional firm acting as the statutory secretary.

vii. Every year, a Hong Kong company must complete an Annual Return and file it with the Companies Registry where it is open for public inspection. The Annual Return gives details, among others, of a company's share capital, members and directors.

viii. A Hong Kong company is required to keep proper books of accounts. The accounts need to be audited by an auditor holding a practicing certificate issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). A Hong Kong private company is not required to file audited accounts with the Companies Registry. Therefore, a company's financial position is not available to the public. However, the annual audited accounts have to be submitted to the Hong Kong Inland Revenue Department ("IRD") together with the annual Corporation Profits Tax Return for assessment.

Branch of a Foreign Company

A foreign corporation may establish a branch in Hong Kong by registering itself as a non-Hong Kong company having a place of business in Hong Kong under Part 16 of the CO and making a business registration with the Companies Registry. Such registration shall be made within one month of business commencement by submitting following documents with the Companies Registry:

i. A certified copy of the Certificate of Incorporation and Articles of Association of the foreign corporation or other instruments defining its constitution. If the instrument is not written in Chinese or English, a certified translation of the document is required.

ii. The names, residential address and passport number or Hong Kong Identity Card number of the directors of the foreign company.

iii. The name, address and passport number or Hong Kong Identity Card number of at least one authorized representative in Hong Kong who is authorized to accept legal notice served on the foreign company.

iv. Name, address and passport number or Hong Kong Identity Card number of the foreign company's statutory secretary.

v. The address of the principal place of business of the Hong Kong branch.

vi. The addresses of the principal place of business and registered office of the foreign company in its place of incorporation.

vii. A certified copy of the company's latest published accounts.

Representative Office of a Foreign Company

A foreign corporation may also consider setting up a representative office in Hong Kong. A representative office is required to register with the Companies Registry under the CO unless:

i. The representative office does not conclude contracts in Hong Kong other than contracts for employing domestic staff, purchasing furniture and fixture, etc.;

ii. The representative office does not maintain accounts in Hong Kong; and

iii. The representative office receives no income in Hong Kong.

If the representative office only acts as a liaison or buying office of its overseas head office and does not conclude any sales contract in Hong Kong, it is not subject to Hong Kong profits tax. However, business registration is still required for setting up a representative office in Hong Kong.

Sole-Proprietorship

It is simple to set up a sole proprietorship business in Hong Kong. The only formality is to obtain a business registration certificate from the Business Registration Office. A copy of the sole proprietor's Hong Kong Identity Card/ passport/ identity card issued by the relevant government authority has to be attached to the application form.

Partnership

Similar to the sole proprietorship business, the only formality for the establishment of a partnership is to obtain a business registration certificate. Copies of the Hong Kong Identity Cards or passports of all the partners need to be attached to the business registration application form. Furthermore, there must be an office address in Hong Kong and at least one of the partners must reside in the territory. If all the partners are not residing in Hong Kong, they have to appoint a resident individual as their agent for the purpose of business registration. The Partnership Ordinance governs the operations of partnership business in the territory.

Joint Venture

There is no specific legislation in Hong Kong governing the operations of joint venture. Usually, a joint venture is treated as a partnership and is so assessed by the IRD unless it is carried out through a separate limited liability company.

Accounting

Financial Reporting Framework

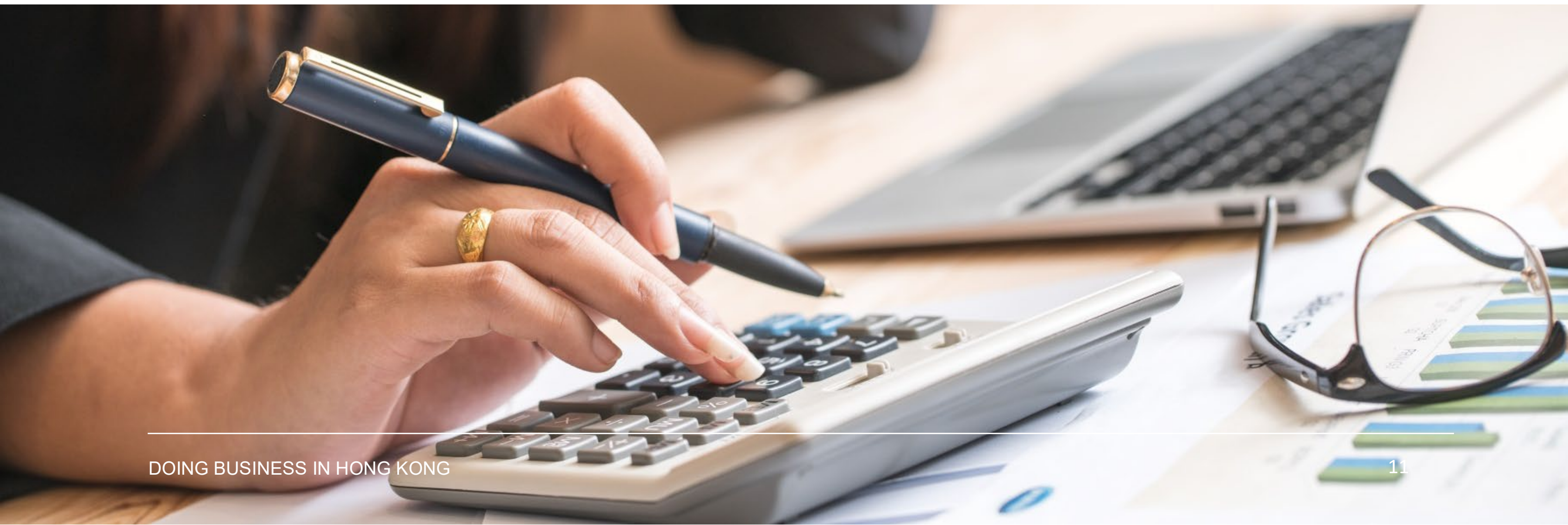
Companies incorporated in Hong Kong are required by Part 9 of the CO (Chapter 622 of Hong Kong Laws) to prepare for each financial year financial statements that comply with the applicable general requirements of section 380 of the CO. Specifically, the annual financial statements must give a true and fair view of the financial position of the company as at the end of the financial year and of its financial performance for the financial year; and comply with the accounting standards issued or specified by the HKICPA.

Hong Kong Financial Reporting Standards ("HKFRS") is the core set of financial reporting standards issued by the HKICPA, which has been modelled on International Financial Reporting Standards ("IFRS"). In addition to HKFRS, the HKICPA has also issued Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities) and the Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS").

HKFRS for Private Entities serves as a reporting option for entities in Hong Kong that have no public accountability. The standard is based on IFRS for SMEs with the objective to ease the reporting burden of eligible entities by relieving them of the requirement to apply full HKFRS.

SME-FRS relates to the reporting exemption under the CO, of which private companies and companies limited by guarantee can take advantage if they meet certain qualifying criteria. The reporting exemption takes the form of exemption from certain of the requirements for the contents of the directors' report and financial statements that would apply if the entities did not qualify for an exemption. Particularly, financial statements are exempted from the requirement to give a true and fair view. The entity taking advantage of the reporting exemption prepares its financial statements in accordance with SME-FRS instead of the fair presentation framework. Financial statements prepared in accordance with SME-FRS are typically presented on a historical cost basis and do not include any assets or liabilities at fair value, or deferred tax.

There is no mandatory financial year-end date for Hong Kong companies, but 31 December and 31 March are commonly chosen. Hong Kong companies are allowed to change their financial year-end date.

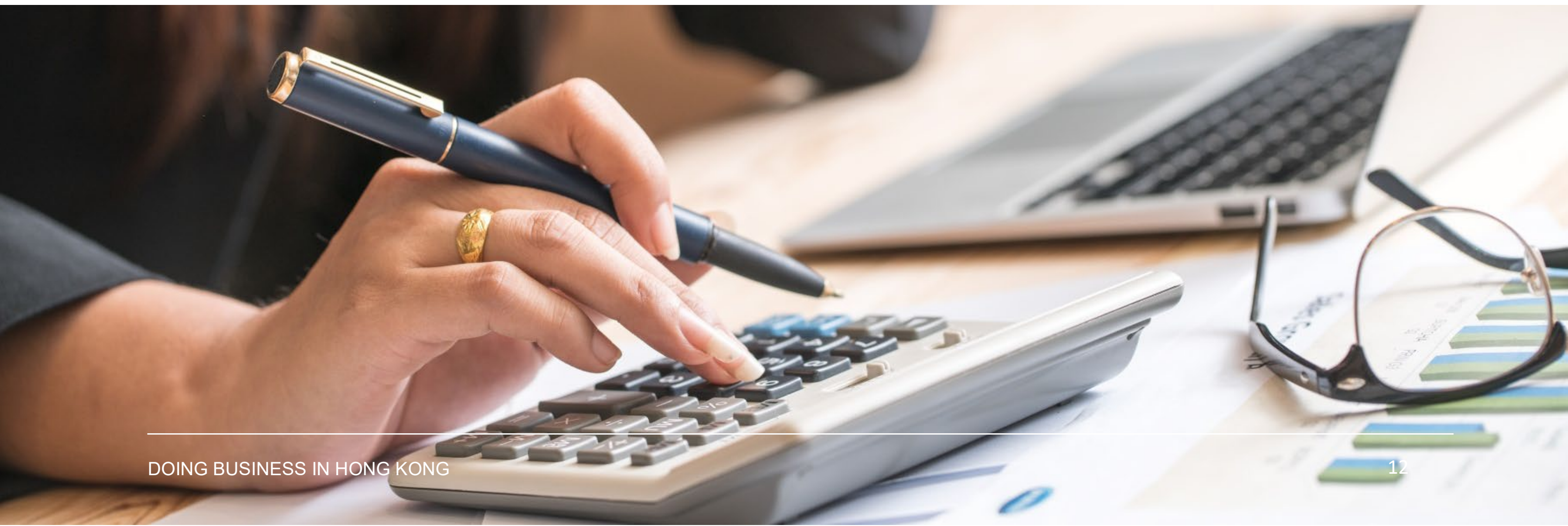


Audit Requirements

CO requires the financial statements of the companies incorporated in Hong Kong to be audited, and that an auditor must be appointed for each financial year. The auditor so appointed must hold a Practising Certificate issued by the HKICPA, which is the only body authorised by law to register and grant practising certificates to certified public accountants in Hong Kong.

Audits are generally conducted in accordance with Hong Kong Standards on Auditing and where applicable, other practice notes issued by the HKICPA.

A company's auditor prepares a report for the members of the company on the annual financial statements prepared by the directors, a copy of which is laid before the company in general meeting or is sent to a member or otherwise circulated, published or issued by the company, during the auditor's term of office. The auditor's report states, in the auditor's opinion, (i) whether the financial statements have been properly prepared in compliance with the CO; and (ii) whether the (consolidated) financial statements of a company that does not fall within the reporting exemption for the financial year, give a true and fair view of the financial position and financial performance of the company (and all the subsidiary undertakings).



Taxation

The Hong Kong tax system is generally considered to be one of the most simple, transparent and straightforward tax systems in the world. For many years, Hong Kong has been adopting a territorial tax system under which only Hong Kong sourced income is chargeable to tax. Therefore, it is very important to identify the source of income before determining the tax liability of a person in Hong Kong. Also, capital gains can be exempted from Hong Kong tax provided certain requirements are met, making Hong Kong an attractive jurisdiction for corporations and individuals to set up tax-efficient investment structures.

Salaries Tax

Basics

Since Hong Kong adopts a territorial tax principle, an individual's nationality and residency are irrelevant when considering his/ her salaries tax liabilities in Hong Kong. Rather, the source of income (i.e. the place where the income is actually derived from) is the determining factor. The same set of tax rules and tax rates apply to both local and foreign residents.

Salaries tax rates

Salaries Tax is charged on an individual in respect of his/ her income arising in or derived from any office, employment or pension in Hong Kong. The amount of tax payable is calculated at the lower of the following:

i. The standard rate (i.e. currently at 15%) on chargeable income after the deduction of allowable deductions and charitable donations but before deduction of personal allowances; or

ii. The applicable progressive rates on net chargeable income after the deduction of allowable deductions, charitable donations and personal allowances. The prevailing progressive salaries tax rates are as follows:

Net Chargeable Income		Progressive Tax Rate
First	HK$50,000	2%
Next	HK$50,000	6%
Next	HK$50,000	10%
Next	HK$50,000	14%
Remainder		17%

Personal Assessment

Normally, Hong Kong's tax system does not tax an individual on his/ her total income. Incomes from different sources are usually taxed under different categories (e.g. business income is subject to profits tax, rental income is subject to property tax and employment income is subject to salaries tax).

Sometimes, it may be advantageous for an individual to elect for personal assessment whereby income chargeable to salaries tax, profits tax and property tax will be aggregated in a single assessment. Personal assessment enables an individual to offset a business loss against income subject to salaries tax or property tax and to claim loan interest on rental properties which is not available under property tax. Losses sustained by an individual and brought forward from previous tax years under personal assessment may be used to offset against taxable income in subsequent years. Appropriate personal allowances and allowable deductions are granted under personal assessment and the tax payable is calculated on the balance in the same manner as for salaries tax.

Applicants must be permanent or temporary residents in Hong Kong. An election for personal assessment must be made within a stipulated time limit.

Directors

A directorship is regarded as an office. The director fees received by a director of a Hong Kong resident company are generally chargeable to salaries tax regardless of the number of days the director stays in Hong Kong in a particular year of assessment. No tax exemption or tax relief is available for director's fees.

Tax Obligations of Employers

Hong Kong does not operate a pay as you earn (PAYE) system – each employee is required to report his/ her employment income by filing an individual tax return for Hong Kong salaries tax purposes. Therefore, an employer is not obliged to withhold salaries tax from the remuneration paid to employees, with the exception of those departing Hong Kong employees as mentioned below.

All employers in Hong Kong are required to file an Employer's Return of Remuneration and Pensions with the IRD within one month from the date of issue of the Return to report details of the remuneration paid to their employees (including directors) during a tax year which runs from 1 April to 31 March.

Employers are also required by law to notify the IRD in the following situations:

Employment Status of Employee	**Time Limit for Filing**
Commencement of employment	Within 3 months from the date of commencement of employment
Continuous employment to 31 March	Within 1 month from the issue date of Employer's Return
Cessation of employment	At least 1 month before the date of cessation of employment
Cessation of employment & leaving Hong Kong	At least 1 month before the expected date of departure from Hong Kong

Tax Obligations of Employees

Hong Kong employers are not required by law to withhold salaries tax for their employees (except for employees who are departing from Hong Kong under certain circumstances). It is the employees' obligation to report to the IRD and pay the required tax. Below are the obligations of an employee in connection with his/ her employment in Hong Kong:

Obligation	**Time Limit**
Complete Individual Tax Return issued by the IRD	Within 1 month from the issue date of the Individual Tax Return
Notify the IRD in writing of the chargeability to Salaries Tax for a year of assessment unless Individual Tax Return has been issued	Within 4 months after the end of the basis period for that year of assessment (i.e. on or before 31 July)
Notify the IRD in writing of departure from Hong Kong for more than 1 month (other than business trip)	At least 1 month before the expected date of departure from Hong Kong.

In general, the IRD will issue Individual Tax Returns to all individual taxpayers on the first working day of May each year for tax reporting purposes. After receiving the Returns filed by taxpayers, the IRD will issue the Notices of Salaries Tax Assessment to taxpayers to demand tax payments.

The IRD usually issues the Notices of Salaries Tax Assessment to individual taxpayers in around October each year. The assessment notice demands not only salaries tax payment on the final salaries tax assessed for the preceding year, but also advance payment of the following year's salaries tax (i.e. provisional tax), which is calculated by reference to the net chargeable income for the preceding year. An individual taxpayer is usually required to settle his/ her salaries tax liability by two instalments. The due date for the first instalment is normally in January of the following year, at which time, all outstanding final tax plus 75% of the provisional tax are payable. The second instalment representing the remaining 25% of the provisional tax will usually be due for payment in around April.

Profits Tax

Determination of Taxable Income

Any persons (including individuals, corporations, partnerships or unincorporated business ventures) carrying on a trade, profession or business in Hong Kong are subject to profits tax on their Hong Kong sourced profits. In general, before a profits tax liability can arise, a person must satisfy the following conditions:

i. Carries on a trade, profession or business in Hong Kong;

ii. Derives profits from that trade, profession or business, other than the profits from the sale of capital assets; and

iii. These profits arise in and/ or are derived from Hong Kong.

Profits tax rates

Hong Kong currently operates a two-tiered profits tax rate regime whereby the first HK$ 2 million of assessable profits derived by corporations or unincorporated business are taxed at the reduced tax rates of 8.25% and 7.5% respectively, and the assessable profits in excess of HK$ 2 million are taxed at the normal tax rates of 16.5% and 15% respectively. In order to avoid double benefits, a taxpaying entity would not qualify for the two-tiered rates if one of its connected entities has already elected to be charged at the two-tiered rates for a particular tax year.

Tax year

In Hong Kong, a “tax year” or “year of assessment” runs from 1 April to 31 March. A company’s accounting year-end date will determine the year of assessment in which the company’s accounts should fall (e.g. an accounting year-end date of 31 March 2021 will fall under the year of assessment 2020/21 whereas an accounting year-end date of 30 June 2021 will fall under the year of assessment 2021/22). A company is free to choose any date as its accounting year-end date for Hong Kong profits tax purposes.

Deemed trading receipts

The following income of a non-Hong Kong resident person is deemed to be receipts from a trade, profession or business carried on in Hong Kong:

i. Royalties receivable from the exhibition or use in Hong Kong of cinematograph or television film or tape, any sound recording or any advertising material connected with such film, tape or recording;

ii. Royalties receivable for the use of, or right to use in Hong Kong a patent, design, trademark, copyright, layout-design (topography) of an integrated circuit, performer’s right, plant variety right, formula or other property of a similar nature;

iii. Royalties receivable for the use of, or right to use outside Hong Kong a patent design, trademark, copyright, layout-design (topography) of an integrated circuit, performer’s right, plant variety right, formula or other property of a similar nature if the payee of such royalties has claimed a tax deduction in Hong Kong;

iv. Sums received by or accrued to a performer or an organiser for an assignment of, or an agreement to assign, a performer's right in relation to a performance given by the performer in Hong Kong on or after 29 June 2018;

v. Sums receivable for the use, or the right to the use or for imparting or undertaking to impart knowledge directly or indirectly connected with the use outside Hong Kong of any intellectual property or know-how generated from any research and development activity in respect of which a deduction for such research and development expense has been claimed in Hong Kong; and

vi. Sums received or accrued in respect of the hire, rental or similar charges for the use of movable property in Hong Kong.

The assessable profits for cases i) to iii) above are equal to 30% of the sum receivable by the non-resident person if the IRD is satisfied that no person carrying on a trade, profession or business in Hong Kong has, at any time, wholly or partly-owned the relevant intellectual property or the royalty recipient is not an associate of the royalty payee. Otherwise, the assessable profits will be the full amount receivable/ received by the non-resident person.

Deductions/ Capital Allowances

Generally, in arriving at the amount of profits chargeable to profits tax, deductions are allowed for outgoings and expenses to the extent that they are incurred in the production of the chargeable profits.

The IRD grants statutory tax allowances to taxpayers who have incurred certain qualifying capital expenditure for the purpose of carrying on a trade, profession or business in Hong Kong, including expenditure on acquisition of tangible assets such as plant and machinery, industrial buildings, commercial buildings, etc., expenditure on certain scientific research and qualifying research and development ("R&D") activities, as well as expenditure incurred in relation to the acquisition or registration of intellectual property rights.

i. Allowances on plant and machinery comprise an initial allowance of 60% on the acquisition cost and an annual allowance of 10%, 20% or 30% on the reduced balance of the particular category of plant or machinery. Items qualifying for the same rate of annual allowance are grouped into one pool.

ii. An industrial building allowance of 20% on the construction costs of buildings incurred in certain trades such as transport, manufacturing, processing or storage of goods is granted. An additional allowance of 4% on the expenditure is also granted annually until the total construction costs are written off.

iii. Commercial building allowances are granted for expenditure on the construction of a building (other than an industrial building) at the rate of 4% per annum against cost.

iv. Capital expenditure incurred on certain prescribed fixed assets is allowed to be fully written-off in the year in which the assets are acquired. "Prescribed fixed assets" include computer hardware and software, and certain defined plant and machinery that are used specifically and directly for any manufacturing process.

v. Capital expenditure incurred on the renovation or refurbishment of business premises is allowed to be deducted equally in 5 instalments over a period of 5 years.

vi. Capital expenditure incurred on certain prescribed environmental protection facilities is entitled to a preferential tax deduction. Expenditure incurred on environmental protection machinery is allowed to be fully written-off in the year it is incurred whereas expenditure on environmental protection installation is allowed to be deducted equally in 5 instalments over a period of 5 years.

vii. Certain scientific research expenditure, including payments to approved research institutes and payments for technical education are tax deductible.

viii. Enterprises are entitled to enjoy a 300% tax deduction on the first HK$2 million of qualifying R&D expenditure incurred locally, and a 200% tax deduction for the remainder without any cap.

ix. Capital expenditure incurred in the registration of a trademark, design or patent, or incurred in the acquisition of patent rights and rights to any know-how qualifies for tax deduction in the year in which the expenditure is incurred if the relevant intellectual property is used in the production of assessable profits (regardless of where the intellectual property is used).

x. Capital expenditure incurred in the acquisition of copyrights, performer's economoic rights, protected layout design (topography) rights, protected plant variety rights, registered designs or registered trademarks (collectively referred to as "specified IP rights"). The capital expenditure incurred on the purchase of specified IP rights is to be deducted equally over 5 years (or over the remaining years of protection) if certain conditions are met.

Dividends

Dividend income, whether derived from Hong Kong or overseas, is not taxable in Hong Kong. Dividends paid to either a resident or non-resident of Hong Kong are not subject to any withholding tax in Hong Kong.

Interest Deduction

Only interest expenses which fall within specific categories and are incurred in the production of a taxpayer's chargeable profits are tax deductible. In addition, deductibility of interest expenses is subject to certain additional anti-avoidance provisions under the Inland Revenue Ordinance.

Profits Tax Exemption for Funds

The Hong Kong tax laws provide for a profits tax exemption regime to all investment funds, regardless of their form, size, purpose, or location of its central management and control, provided that certain conditions are met. This exemption generally applies to profits derived by qualified funds from certain specified transactions carried out by certain specified persons. Specified transactions are defined to include transactions in securities, futures contracts, foreign exchange contracts, deposits other than by way of a money-lending business, foreign currencies and exchange-traded commodities. The term also includes transactions in securities of private companies, subject to certain anti-avoidance tests.

Corporate Treasury Centres

To attract multinational and Chinese corporations to establish corporate treasury centres in Hong Kong, Hong Kong tax laws provide certain tax benefits to corporate treasury centres under specified conditions. The relevant tax laws offer a concessionary profits tax of 8.25% to qualified corporate treasury centres in Hong Kong for their profits derived from certain qualifying corporate treasury activities carried out in Hong Kong if certain conditions are met.

Special tax regimes for some particular industries

In Hong Kong, insurance companies, aircraft operators and ship-owners are subject to special tax regimes. Besides,

i. Profits derived by qualifying insurance business and insurance brokerage business in Hong Kong are entitled to a 50% reduction in profits tax rate.

ii. Profits derived from qualifying activities by qualifying aircraft lessors and qualifying aircraft leasing managers are entitled to a 50% reduction in profits tax rate.

iii. The tax regime for ship leasing business has been implemented from the year of assessment 2020/21. Under the regime, profits derived from operating lease or finance lease activities carried out by a qualifying ship lessor are exempt from profits tax. In addition, profits derived from qualifying ship leasing management activities carried out by a qualifying ship leasing manager are exempt from profits tax for services provided to an associated qualifying ship lessor or entitled to a 50% reduction in profits tax rate for services provided to a non-associated qualifying ship lessor.

iv. Tax concessions for eligible carried interest arising from qualifying transactions in private equities distributed by qualifying payers will be effective retrospectively from the year of assessment 2020/21. Subject to the completion of legislative amendments, eligible carried interest received by or accrued to qualifying recipients on or after 1 April 2020 for the provision of investment management services in Hong Kong to the aforesaid qualifying payers are exempt from tax in Hong Kong.

Capital Gains Tax

There is no capital gains tax in Hong Kong.

Value-Added Tax and Customs Duty

There is no value-added tax in Hong Kong.

With the exception of a few types of goods such as tobacco, alcohol and some petroleum products, goods imported from overseas into Hong Kong are not subject to Customs Duty.

Stamp Duty

Stamp duty applies to the following categories of transactions:

i. Contract notes on the transfer of Hong Kong shares and marketable securities;

ii. Assignments of immovable property in Hong Kong;

iii. Leases and assignments of leases of Hong Kong property; and

iv. Issuance of bearer instrument.

Transactions in Hong Kong shares or marketable securities will attract an ad valorem duty of HK$ 2 per HK$1,000 (i.e. 0.2%) payable equally by the buyer and the seller (i.e. 0.1% each payable by the buyer and the seller). The Hong Kong Government has officially published its proposal to increase the rate of stamp duty on stock transfers to 0.13% under the 2021/22 Budget. The new stamp duty rate will take effect in August 2021 subject to the completion of legislative amendments. Stamp duty is waived for the transfer (including allotment and redemption) of shares or units of all Exchange Traded Funds.

Stamp duty on transfer of immovable property is sub-divided into three categories as follows:

Ad Valorem Stamp Duty ("AVD")

The AVD for residential property transactions executed on or after 5 November 2016 is levied at a flat rate of 15% on the sales consideration or value of the property (whichever is higher), unless specifically exempted or provided otherwise. The major exemption is where the residential property buyer is a Hong Kong permanent resident who acts on his/ her own behalf and does not own any other residential property in Hong Kong at the time of acquisition. In such case, the AVD is levied at lower rates which vary from HK$ 100 to 4.25% on the sales consideration or value of the property (whichever is higher), depending on the sales consideration of the relevant property.

The AVD for transactions of immovable properties other than residential properties is computed at rates which vary from 1.5% to 8.5% (or a maximum rate of 4.25% with effect from 26 November 2020) on the sales consideration or value of the properties (whichever is higher), depending on the sales consideration of the relevant properties.

Special Stamp Duty ("SSD")

Residential properties acquired either by an individual or a company (regardless of where it is incorporated) and resold within 36 months will be subject to SSD. The applicable SSD rates for properties acquired vary from 10% to 20% on the sales consideration or value of the properties (whichever is higher), depending on the holding period of the relevant properties.

Buyer's Stamp Duty ("BSD")

Unless specifically exempted, all companies (regardless of their place of incorporation) and non-Hong Kong permanent residents acquiring residential properties in Hong Kong are subject to BSD at a flat rate of 15% on the sales consideration or the market value of the properties (whichever is the higher).

Property Tax

Property tax is charged at a standard rate on the net assessable value derived from the letting of any land or building in Hong Kong. The net assessable value is the assessable value (i.e. rental income after deduction of rates paid by the owner and irrecoverable rent) less a notional allowance of 20% for repairs and maintenance.

Tax Implications on Different Business Entities

Foreign investors intending to establish a business presence in Hong Kong can choose to set up a representative office, a branch or a limited liability company.

Representative Office

Strictly speaking, a representative office is different from a branch office. A representative office is not allowed to conduct trade or enter into business contracts with other entities by itself. Rather, it can only act as a cost centre to engage in ancillary activities such as coordinating buying activities in the region, communicating with customers on behalf of the overseas head office, doing market research, etc. If a representative office is not involved directly in any trading activity or possess general authority to enter into purchase and sales contracts with suppliers and customers, it should not be regarded as carrying on a trade or business in Hong Kong and hence may not be subject to Hong Kong profits tax.

Branch or Limited Liability Company

A branch set up in Hong Kong by an overseas company is allowed to engage directly in trading activities and therefore can enter into business contracts on behalf of its overseas head office. In Hong Kong, there is no distinction between branch profits tax and corporation profits tax. Both of them are subject to the same set of tax laws and tax rates.

i. Taxation of a branch or Hong Kong incorporated company: Since Hong Kong adopts a territorial tax regime, no distinction is made between a resident and non-resident. The profits tax liability of a branch or a company is determined by reference to the source of income (i.e. the place from which the income is actually derived), not residency. The same set of tax regulations applies to both public limited companies and private limited companies. Taxable profits are calculated based on the accounting profits for the basis period as shown on the audited financial statements, after adjusting for non-taxable/ non-deductible items and statutory allowances (which are calculated in accordance with the Inland Revenue Ordinance). However, as a branch constitutes a permanent establishment in most cases, in addition to the actual income reflected on its financial statements, it may also need to examine whether any profits should be attributed from its foreign head office to itself for profits tax purposes.

ii. Tax losses: Losses incurred can be carried forward indefinitely to set off against future assessable profits of the same entity. There are anti-avoidance provisions in the Inland Revenue Ordinance restricting the use of tax losses where a change in shareholding is undertaken solely or dominantly for the purpose of utilizing the losses to obtain a tax benefit. No carryback of tax losses is allowed.

iii. Group tax loss relief: Companies of the same group are assessed to profits tax separately. There is no group tax loss relief in Hong Kong, with the exception of a court-free amalgamation which takes place under Part 13 of the CO, in which case tax losses may be allowed to be transferred to another entity under certain circumstances.

Transfer Pricing and Related Party Transactions

In July 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.6) Ordinance 2018, which primarily implements the minimum standards of the Base Erosion and Profit Shifting ("BEPS") package promulgated by the Organization for Economic Co-operation and Development ("OECD") and codifies the arm's length principles into the Inland Revenue Ordinance.

Under the Hong Kong transfer pricing regime, the IRD is empowered to adjust the profits or losses of a company which has carried on or conducted business transactions with its associated persons (including corporations, partnerships, incorporated or unincorporated trustees or bodies of persons) and where the prices charged under such transactions depart from those charged under the transactions which would have been made between independent persons (i.e. the arm's length provision) and have created a Hong Kong tax advantage. The transfer pricing rules apply to all Hong Kong enterprises including a permanent establishment maintained by non-Hong Kong resident persons, covering both cross-border and domestic transactions which involve tangible assets, financial arrangements, intangible assets and services.

The Hong Kong transfer pricing legislation also provides that the income or loss of a non-Hong Kong resident person attributable to the person's permanent establishment in Hong Kong will be determined as if the permanent establishment were a distinct and separate enterprise based on the functions performed, assets used and risk assumed by the person through the permanent establishment and through the other parts of the person.

Since 2018, mandatory transfer pricing documentation has been implemented in Hong Kong based on the three-tiered documentation structure recommended by the OECD, which consists of the local file, the master file and the Country-by-Country ("CbC") report. All enterprises carrying on a trade or business in Hong Kong which engage in transactions with associated enterprises will be required to prepare a master file and a local file for each accounting period within 9 months from the end of the accounting period, with the exception of enterprises which meet certain exemption criteria.

For each accounting period beginning on or after 1 January 2018, the Hong Kong ultimate parent entity of a multinational enterprise group ("MNE Group") with annual consolidated revenue of HK$ 6.8 billion (or EUR 750 million) or above for the preceding accounting period ("Reportable Group") should file a CbC return, which includes a CbC report, with the IRD within 12 months after the end of the relevant accounting period. A Hong Kong entity of a Reportable Group whose ultimate parent company is not Hong Kong resident is subject to a secondary obligation of filing a CbC return if certain conditions are met. The contents of the CbC report should follow the recommendations of the OECD. The IRD will automatically exchange this report with the jurisdictions in which the MNE is active and with which Hong Kong has concluded relevant agreements for automatic exchange of tax information.

Under the requirements, master files, local files and CbC reports should be prepared in either Chinese or English.

Every Hong Kong entity of a Reportable Group (regardless of whether it needs to file a CbC return in Hong Kong or not) is required to submit a CbC notification to the IRD annually unless such notification has already been filed by another Hong Kong entity within the same Reportable Group. The CbC notification enables the IRD to determine the obligations of a Reportable Group to file a CbC return with the IRD for a particular accounitng period.

Foreign Tax Relief, Treaty and Non-Treaty Withholding Tax Rates

As Hong Kong adopts a territorial source principle of taxation, the income derived by a Hong Kong resident from overseas should, in principle, not be subject to double taxation in Hong Kong. Many countries, which assess their residents on a worldwide basis, will provide their residents with unilateral tax credit relief for any tax paid on income derived from their businesses in Hong Kong. Hong Kong also allows the deduction of foreign tax paid on a turnover basis in respect of the same income chargeable to tax in Hong Kong. Under such circumstances, businesses operating in Hong Kong generally do not have problems with double taxation of income. Nevertheless, the Hong Kong Government recognises that there are merits in concluding double taxation agreements with its trading partners, particularly in the aviation and shipping industries.

The Hong Kong Government has concluded comprehensive double taxation agreements with the following countries and jurisdictions as of 30 November 2020:

Austria	Belarus	Belgium	Brunei	Cambodia	Canada
Czech	Estonia	Finland	France	Georgia*	Guernsey
Hungary	India	Indonesia	Ireland	Italy	Japan
Jersey	Korea	Kuwait	Latvia	Liechtenstein	Luxembourg
Macao SAR	Mainland China	Malaysia	Malta	Mexico	Netherlands
New Zealand	Pakistan	Portugal	Qatar	Romania	Russia
Saudi Arabia	Serbia*	South Africa	Spain	Switzerland	Thailand
United Arab Emirates	United Kingdom	Vietnam			

* Pending the entry into force of the comprehensive double taxation agreement.

Under the comprehensive double taxation agreements, withholding tax imposed on a Hong Kong resident by the treaty countries/ jurisdictions for royalty, dividend and interest payments is capped at maximum rates which are usually lower than their standard withholding tax rates. Hong Kong has also entered into limited double taxation agreements (applicable to airline and shipping income) with various countries.

Also, residents of treaty countries/ jurisdictions may enjoy lower withholding tax rates for any royalty received from a Hong Kong resident (depending on the terms of each double taxation agreement). In other words, the Hong Kong resident, as a tax reporting agent, could withhold smaller amounts of tax for royalty paid to a resident of a treaty country/ jurisdiction.

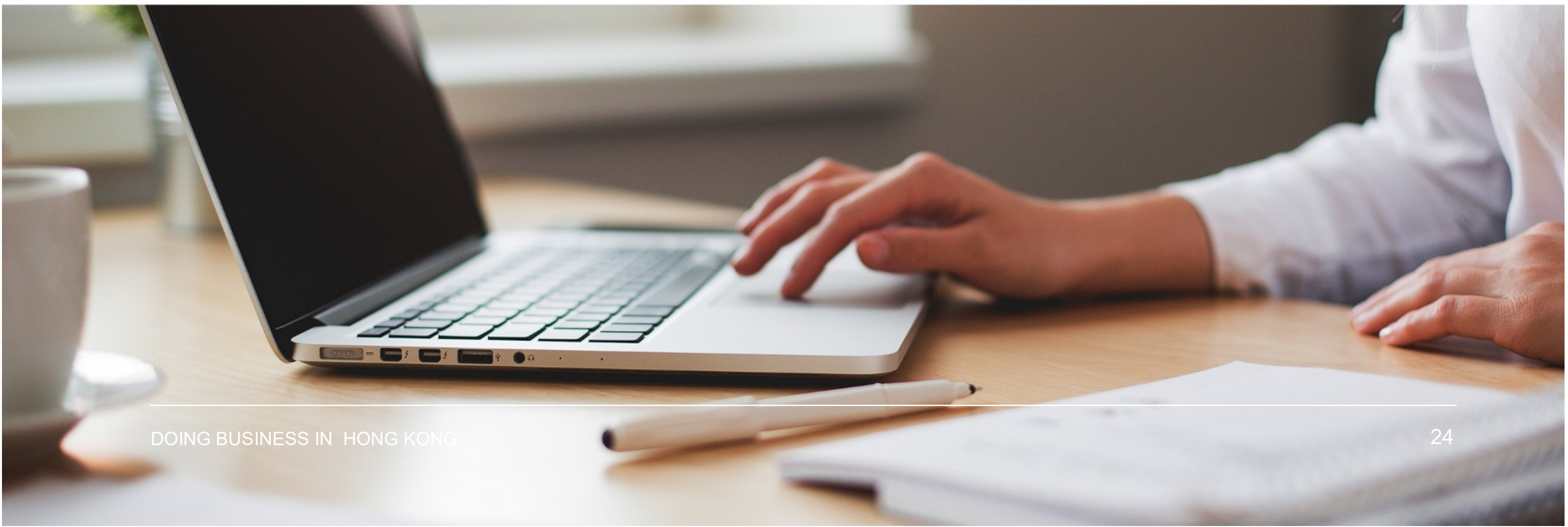
Working in Hong Kong

Employees' Rights

The Employment Ordinance is the main legislation governing conditions of employment in Hong Kong. It covers a wide range of areas in employment protection and benefits including:

- Wage Protection
- Holidays with Pay
- Sickness Allowance
- Statutory Paternity Leave
- Termination of Employment Contract
- Protection Against Anti-Union Discrimination
- Rest Days
- Paid Annual Leave
- Maternity Protection
- Long Service Payment
- Severance Payment
- Employment Protection

The Labour Department is responsible for enforcing the Employment Ordinance with the mission of improving and protecting employees' rights and benefits in an equitable manner. Employees have the right to sue an employer for breach of employment contracts or any non-compliance with the Employment Ordinance. Employees can either submit their claims to the Minor Employment Claims Adjudication Board set up by the Labour Department (for minor claims) or to the Labour Tribunal under the Judiciary which provides a quick, inexpensive and informal forum for settling labour disputes.



Entry into Hong Kong, Visas and Permits

Foreign individuals who wish to come and work in Hong Kong are required to apply for work visas. Applicants should submit their visa applications to the nearest Chinese diplomatic and consular mission in their place of residence or send their applications to the Hong Kong Immigration Department directly or through their local sponsor companies in Hong Kong.

The following documents are generally required to be submitted when lodging a work visa application:

i. The duly completed and signed application forms;

ii. ii A copy of the applicant's valid travel document containing personal particulars, date of issue, date of expiry and details of any re-entry visa held (if applicable);

iii. Details with proof of the applicant's academic qualifications and experience relevant to the post, e.g. copies of diplomas, certificates and testimonials, reference letters from previous employers;

iv. A copy of the employment contract or letter of appointment of the applicant with details of his/ her post, salaries, other fringe benefits and employment period;

v. A copy of the employing company's Business Registration Certificate*;

vi. A copy of proof financial standing of the employing company (e.g. latest audited financial report, trading profit and loss accounts, profits tax return)*;

vii. Documents with details of the employing company's background such as business activities, mode of operation, background/ connection of company, product ranges, sources and markets, membership of chamber of commerce (if any), etc.*;

viii. A staff list with details such as salary offered and position held, and a list of expatriate staff recruited from overseas (including both present staff and staff that have left);

ix. A full description of the applicant's post and responsibilities;

x. A letter, with supporting proof from the employer (if possible), stating the reason why the post could not be filled locally;

xi. If the applicant is to fill a new post, explain why his/her services are essential; and

xii. Evidence of the applicant's past residence in Hong Kong (if any).

* Submission of the documents is not required if the employing company has successfully obtained an employment or training visa/ entry permit for a non-local staff in the past 18 months immediately before the submission of the visa application.

It normally takes 4 to 6 weeks for the Immigration Department to process a work visa application.

Mandatory Provident Fund Scheme

In Hong Kong, the MPF system is designed to provide a formal, compulsory system of retirement protection by way of a privately managed contribution scheme. All benefits derived from mandatory contributions must generally be preserved until the person reaches the prescribed retirement age of 65.

There are some exceptions which allow early withdrawal of benefits including where a person in fact retires between ages 60 and 65, where a person has departed, or will depart from Hong Kong permanently, where a person has become totally incapacitated or where a person has died before that age.

The benefits accrued from mandatory contributions to MPF schemes are withdrawn in a lump sum upon retirement, rather than as a pension.

An employer in Hong Kong is required to make arrangements for its regular employees, who are at least 18 but under 65 years of age and have been employed for a continuous period of 60 days or more, to join a registered MPF scheme. An employer can select one or more MPF schemes managed by a licensed trustee in the market (e.g. most of the licensed banks and insurance companies in Hong Kong) and then arrange for its employees to join the selected schemes.

Under the MPF system, both employees and employers are required to make regular mandatory contributions calculated at 5% of the employees' monthly income to an MPF scheme, subject to the minimum and maximum relevant income levels. The maximum level of income for contribution purposes is HK$ 30,000 per month so the maximum mandatory contribution for each of the employer and employee is HK$ 1,500 per month. An employee whose income is less than HK$ 7,100 per month is not required to make mandatory contributions, but the employer is required to contribute an amount equal to 5% of the income. An employee and an employer may make voluntary contributions in addition to the mandatory contributions required.

The following categories of persons can be exempted from joining an MPF scheme:

i. Domestic helpers;

ii. Self-employed hawkers;

iii. People covered by statutory pension and provident fund schemes (e.g. Hong Kong civil servants and grant school teachers);

iv. Members of occupational retirement schemes which are granted exemption certificates;

v. People from overseas who enter Hong Kong for employment or self-employment for not more than 13 months;

vi. People from overseas who enter Hong Kong for employment or self-employment and who are covered by overseas retirement schemes; and

vii. Employees of the European Union Office of the European Commission in Hong Kong.

Investors may visit the website of the MPF Authority (www.mpfa.org.hk) for more detailed information about the statutory requirements for making MPF contributions in Hong Kong.

Doing Business in the PRC through Hong Kong

Hong Kong is a major business centre widely known for its low tax rates, simple taxation system, free port and free economy, competent legal and financial system, good infrastructure, excellent geographic location, etc. The success of Hong Kong is not only attributable to its inherent competitive advantages, but also its unique position as the gateway of the PRC. In recent decades, the rapid economic growth and economic open-up policy of the PRC bring great opportunities to Hong Kong as the close Sino-Hong Kong relationship attracts foreign investors to set up headquarters or liaison offices in the territory for managing their investments in the PRC. The signing of the Closer Economic Partnership Arrangement ("CEPA") in 2003 and various supplementary agreements concluded later further enhance Hong Kong's position as the foreign investment gateway to the PRC.

Hong Kong – a Unique City in the PRC

Hong Kong - It is the freest economy situated in the PRC and one of the major financial centres in the world. It is a unique territory compared with other cities in the PRC because the former operates a totally separate legal, taxation and financial system. Under the "One Country, Two Systems" policy, Hong Kong retains its own legislative and capitalist system and enjoys high autonomy on its administrative affairs. Hong Kong also inherits the British common law system, which provides great confidence and convenience to foreign investors.

Moreover, while Hong Kong is one of the lowest tax regions in the world, it has long been known as an international business, logistics and financial centre. This implies that any tax efficient arrangements and the accumulation of profits in Hong Kong can be readily justified on commercial grounds to the tax authorities of many home countries of foreign investors. Under the simple taxation system in Hong Kong, offshore profits are generally not subject to income tax and there is neither dividend tax nor capital gain tax. In addition, as opposed to the PRC, Hong Kong does not have restrictions on foreign exchange.

Foreign investors therefore prefer setting up regional headquarters in Hong Kong to carry on various business and accumulate funds for financing their future expansions in the Asia Pacific Region, especially in the PRC.

CEPA – Better Market Success and More Savings on Tariffs

In 2003, the PRC Central Government signed the CEPA with the Hong Kong Government, covering 4 broad areas:

Trading of goods

PRC agrees to apply zero tariffs on imports of all finished products (except prohibited articles and articles that are subject to special requirements) from Hong Kong provided that they satisfy the rules of origin requirement as "Made in Hong Kong". In general, goods are qualified as made in Hong Kong if they have been "wholly obtained in Hong Kong" or "substantially transformed" in Hong Kong.

The Hong Kong Trade and Industry Department is authorized by the Hong Kong Government as the certification organization to issue the Certificates of Origin under CEPA to qualified applicants. When determining whether or not the goods are "substantially transformed" in Hong Kong, several criteria will be looked at. However, it is stated in CEPA that simple diluting, mixing, packaging, bottling, drying, assembling, sorting, decorating as well as processing or treatment for the purpose of transportation, storage, delivery, packaging or display are not regarded as substantial transformation.

Services

CEPA also provides liberalization to Hong Kong-based companies in market access to various service sectors in the PRC. To be eligible for enjoying the benefits, a company must be a qualified "Hong Kong Service Supplier" which means that it must be incorporated in Hong Kong with "substantial business operations" in the past 3 to 5 years. Professional bodies of Hong Kong and the regulatory authorities in the PRChave also entered into several agreements to facilitate the mutual recognition of professional qualification.

Investment

Hong Kong investors can enjoy preferential treatment in accessing to non-services sectors in the PRC. The Investment Agreement signed between the PRC and Hong Kong also promotes and facilitates investment by Hong Kong investors.

Economic and Technical Cooperation

The Agreement on Economic and Technical Cooperation (Ecotech Agreement) was signed on 28 June 2017 between the PRC and Hong Kong to consolidate and update the economic and technical cooperation activities set out in CEPA and its supplements to cater for the trend and support the development and cooperation in the economic and trade aspects.

Under CEPA, qualified Hong Kong enterprises and individuals have earlier access and, to a certain extent, more privileges than other investors when doing business with the PRC under the agreements made with the World Trade Organization. The CEPA benefits are exclusive to Hong Kong. It is expected that CEPA will strengthen Hong Kong's position as the ideal location from which to do business with the PRC. It can also bring new business opportunities to Hong Kong by enhancing Hong Kong's position as the international trade and service centre and opening up the door for Hong Kong companies as well as foreign investors to explore the PRC market.

Making Use of Hong Kong Company as an Investment Vehicle to Invest in the PRC

Hong Kong remains as one of the most popular places for foreign investors to incorporate investment vehicles to hold their PRC investments. Hong Kong has been ranked in consecutive years as one of the top sources of foreign investments in the PRC in terms of the total number of projects and the total amount of investment.

There are several major reasons for foreign investors incorporating Hong Kong companies as investment vehicles to hold their PRC investments:

i. Setting up a Hong Kong company is quick and can be completed within a week.

ii. The use of Hong Kong investment vehicles can give foreign investors more confidence in investing in PRC as the vehicles will be governed by the CO which is very similar to the corporate laws of the developed countries.

iii. As a major financial centre in the world, Hong Kong possesses mature banking and financial systems. Banks in Hong Kong possess good knowledge of the PRC business environment and most of them have already established branches in the PRC.

iv. The above two-tiered investment structure allows reorganisation (if necessary) of foreign investors' interests at the Hong Kong company level without reverting to the tedious re-registration procedures in the PRC in the case of a direct disposal of a PRC entity. Also, any long-term capital gains arising from the disposal of Hong Kong investment vehicles would not be subject to tax in Hong Kong if certain conditions are fulfilled.

v. In addition, if a Hong Kong investment vehicle has genuine business substance, any capital gains arising from the abovementioned indirect disposal of the PRC investment may not be subject to corporate income tax in the PRC provided that relevant requirements are met.

vi. Under the PRC tax laws, any dividends, interests or royalties paid by a PRC investment to its foreign investors should be subject to withholding tax at 10%. Such withholding tax rate may be reduced under the comprehensive double tax agreement entered into between Hong Kong and the PRC subject to approval by the Hong Kong and the PRC tax authorities.

vii. Any dividends distributed by a Hong Kong investment vehicle to its shareholders will be fully exempted from tax in Hong Kong. As such, dividends can be distributed from Hong Kong to foreign investors free from any withholding tax.

viii. The cross-border RMB trade settlement programme facilitates Hong Kong as a regional RMB clearing centre. It enables enterprises in Hong Kong to manage the currencies flexibly and thus reduces the risks arising from fluctuations in exchange rates when doing business with their PRC subsidiaries or other third parties in the PRC.

ix. The PRC governmental authorities are relatively familiar with a Hong Kong holding company structure or cross-border business arrangements with a Hong Kong company, which would facilitate the processing of relevant corporate documents in various scenarios.

Hong Kong has been positioned as the gateway between the PRC and foreign countries for more than one century. Thousands of international companies involved in the PRC trade have already established their beachheads in Hong Kong.

In respect of geographical location, Hong Kong is situated in the centre of Asia. Taking a flight from the Hong Kong International Airport, business executives can reach most Asian countries within five hours. They can also travel to and from Beijing, Shanghai and other major cities in a single day while making their home in Hong Kong.

For all these reasons, not only foreign investors but also Chinese domestic enterprises prefer to choose Hong Kong as their stepping stone to do business in the PRC to achieve efficiency from both tax and commercial perspectives. They endeavour to establish companies in Hong Kong and channel their funds to Hong Kong, which are then invested in overseas markets or re-invested in the PRC. It is also observed that more and more Chinese domestic enterprises are establishing their presence in Hong Kong to facilitate their outbound investments, which reinforces the city's competitive edge as a dynamic business centre for structuring and managing investments in the PRC.

Appendix

Reference websites

The following substantial resources serve as reference and education tools about the issues surrounding doing business in Hong Kong. Should you have any enquiries, please do not hesitate to contact PKF Hong Kong.

Agency or Resource	**Website**
InvestHK Department	www.investhk.gov.hk
Companies Registry	www.cr.gov.hk
Hong Kong Institute of Certified Public Accountants	www.hkicpa.org.hk
Immigration Department	www.immd.gov.hk
Inland Revenue Department	www.ird.gov.hk
Labour Department	www.labour.gov.hk
Mandatory Provident Fund Schemes Authority	www.mpfa.org.hk
Trade and Industry Department	www.tid.gov.hk
Securities and Futures Commission	www.sfc.hk
Hong Kong Stock Exchange	www.hkex.com.hk
Hong Kong Venture Capital Association	www.hkvca.com.hk

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Our comprehensive services include:

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right size
right solutions

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