

# Doing Business in Hong Kong

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## 1. Hong Kong at a Glance<sup>1</sup>

*1.1 Region: East Asia & Pacific*

*1.2 Population: 7,187,500*

*1.3 GNI per capita (US\$) 38,420*

## 2. Why Hong Kong?

*2.1 Hong Kong has been ranked by the World Bank Group the 3<sup>rd</sup> in both 2014 and 2015 in the Ease of Doing Business Rank (out of 189 economies).*

*2.2 Strategically located in the heart of Asia, Hong Kong is Asia's most popular city for international businesses.*

*2.3 All businesses in Hong Kong are offered the benefit of:-*

- the free market principles of an open and corruption-free world-class economy;
- the rule of law;
- political stability;
- free flow of information;
- world-class business infrastructure with efficient transport, logistics and telecommunications infrastructure; and
- a strong pool of local talent in addition to its business-friendly

immigration policies for recruitment of overseas professionals.

*2.4 As one of the world's most open and freest economies, Hong Kong firmly embraces the following:-*

- Free enterprise, free trade and free markets open to all;
- A free port and sets no barriers to trade. No customs tariff on imports or exports. No tariff quota or surcharge.
- No restrictions on investments inward or outward;
- No foreign exchange controls; and
- No nationality restrictions on corporate or sectoral ownership.

## 3. Business Vehicles

### *3.1 Forms of Business Vehicles*

The more common business vehicles for doing businesses in Hong Kong are as follows:-

- Limited company incorporated in Hong Kong
- Branch office of a foreign incorporated company
- Representative office

The following business vehicles are also possible but less common:-

- Partnership
- Sole Proprietorship
- Limited Partnership

### *3.2 Companies incorporated in Hong Kong*

- Generally
  - Companies incorporated in Hong Kong can be public or private and limited by shares or guarantee, i.e. set up by non-profit organizations.
  - A company that is not private or limited by guarantee is a public company.
  - Public companies may be listed on The Stock Exchange of Hong Kong Limited.
  - The most common form of company in Hong Kong is a private limited company.
- Private Limited Companies
  - Easy to set up a private limited company with the submission of a copy of its Articles of Association; Incorporation Form; Notice to Business Registration Office and the prescribed fees and levy.
  - Simultaneous application for business registration.
  - Requires at least 1 director who is a natural person. If

<sup>1</sup> Information from the World Bank Group, September 2015.

the company only has 1 director, the sole director cannot be the company secretary of the company at the same time. A non-Hong Kong resident can be appointed as a director.

- Requires 1 secretary. If the company secretary is a natural person, he or she needs to ordinarily reside in Hong Kong. If the company secretary is a body corporate, its registered office or place of business needs to be in Hong Kong.
- The registered office of the company needs to be in Hong Kong.
- There is no requirement for shareholders to be Hong Kong residents. The sole shareholder can also be a director of the company.

### ***3.3 Branch office of a foreign incorporated company***

- If a company incorporated outside Hong Kong wishes to establish a place of business in Hong Kong, it needs to firstly register with the Companies Registry as a “Registered Non-Hong Kong Company” within one month of such establishment.

- Unlike a subsidiary limited company, a branch office is not a separate legal entity from the parent and can leverage funds off the credit rating of its owner.

### ***3.4 Representative office***

- Representative offices are restricted from engaging in any profit-making activities in Hong Kong.
- Set up for fulfilling limited functions only such as for the company to explore the Hong Kong market before making a larger investment here.
- If the foreign company decides to enter into a transaction which relates to a legal obligation, it will need to firstly change the business to a limited company or branch office.

### ***3.5 Special Types of Business***

- In addition, financial institutions, telecommunication and broadcasting companies, restaurants, pubs, travel agencies and employment agencies etc. require a special licence or other form of consent from the relevant regulatory authority.

## **4. Hong Kong’s simple and attractive low-rate tax system**

### ***4.1 Overview – Appealing Tax Environment for Foreign Investors***

- Lower headline tax rates than most other Asian jurisdictions;
- No tax on gains from sale of capital assets;
- No tax on profits arising or derived from outside Hong Kong;
- No tax on dividends; and
- No estate duty.

### ***4.2 Business related taxes***

- **Profits Tax**
  - Hong Kong’s taxing regime on this is source based.
  - Any party, including corporations, partnerships, trustees or organization carrying on any trade, profession or business in Hong Kong deriving assessable profits from that trade, profession or business generated or originated in Hong Kong is subject to profits tax, e.g. by having an office, a place of business or having a significant portion of the business activities being undertaken in Hong Kong. The current rate is 16.5% on corporations and 15% on other taxpayers.

- Financial institutions, insurance companies, ship owners and aircraft operators are subject to special tax regimes.
- Deductible expenses include:-
  - Expenses paid for producing the assessable profits;
  - Industrial and commercial buildings allowance;
  - Plant and office equipment; and
  - Corporate losses etc.

employee is about to leave Hong Kong but it needs to make an annual return of remuneration paid to employees and make various other returns such as on commencement/termination of employment or an employee's departure.

- Certain allowances and deductions (subject to maximum limits) are allowed.

#### - **Salaries Tax**

- Based on Hong Kong sourced income, including income derived from work, employment or pension in Hong Kong are subject to salaries tax.
- A matter of fact and substance as to what constitutes Hong Kong based employment.
- Housing provided by employer is taxable but on a concessionary basis.
- An employer is not required to withhold salaries tax with certain limited exceptions where an

#### **5. Conclusion**

Hong Kong is an attractive place for foreign investments. Foreign investors will consider various factors including forms of business vehicles, tax issues, strategic plans, financial considerations as well as obligations and liability considerations before setting up businesses in Hong Kong.

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