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Doing Business
in Hong Kong

2011

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Foreword

Tai Kong CPA Limited is honoured to present you with this booklet, which comprising the latest and useful information for foreign investors who are taking initial steps to establish their business in Hong Kong.

Hong Kong is a key city situated at south of Guangdong province and enclosed by the Pearl River Delta – the biggest and most productive manufacturing region in Mainland China. The close and unique relationship between Hong Kong and Mainland China originates a gateway to Mainland for business and provides almost half of the Mainland's inward investment. Hong Kong's superior location and international business environment have already attracted innumerable of foreign investors establish their beachheads in Hong Kong.

Even thought Hong Kong returned to the sovereignty of Mainland China in 1997, it retained all the fundamental strengths and advantages including free movement of capital and information, high degree of autonomy from the China with executive and legislative powers, unrestricted foreign ownership, clean government and upholding rule of law by an independent judiciary. Hong Kong is a mostly self-governing part of the Mainland China.

Hong Kong provides foreign investors world-class transportation, telecommunication, IT connectivity and utilities. They can also enjoy the low & simple tax system and productive & skilled local workforce in Hong Kong. It is no surprise that foreign investors prefer to establish a business in Hong Kong because it has been ranked the freest economy in the world for over the past 17 consecutive years.

Information in the following pages has been contributed by our team members. The material contained in it was compiled on 31 October 2011, and unless otherwise indicated, is based on information available at that time.

Should you wish to get more information about how to start a business in Hong Kong, please contact me at telephone number (852) - 2239 0088 (direct line), (852) - 9031 3549 (mobile) or email to robertkong@tkcpa.com.hk.

Robert, Kong Tak Wing
Founder & Director of
Tai Kong CPA Limited

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1. Introduction to UHY, Tai Kong CPA Limited and R K Corporate Services Limited

UHY is an international association of independent accounting and consultancy firms, whose organizing body is Urbach Hacker Young International Limited, a UK company. It is one of the world's leading businesses advisory, consulting and accounting networks, with independent team members operating across nearly 240 offices in 78 countries worldwide. UHY members work together throughout the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders.

Tai Kong CPA Limited, one of the members of UHY, has been established since 1984 with specialists in audit, tax and due diligence services. We have sound and extensive knowledge and experience in doing business in both Hong Kong and mainland China and have guided many businesses from formation to success, including listing in the Hong Kong Stock Exchange. Complementing our experience and expertise is our access to international support through the UHY network. We are therefore confident that we are well-equipped to meet the requirements of our clients all around the world.

R K Corporate Services Limited, an affiliate of Tai Kong CPA Limited, provides professional and high quality corporate management services to clients. Its specialists provide a comprehensive range of services including:

- Company Formation
- Company Secretarial
- Registered office facilities
- Human Resources Consulting
- Payroll and trust administration
- Re-invoicing
- Trade documentation (e.g. letter of credit issuing and collection services)
- Bookkeeping
- Hong Kong Visa Applications

It also provides other administration services to assist clients in operation of their Hong Kong business. For more details, please visit the website www.rkcorp.com.hk.

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2. Business environment

Hong Kong has grown from a small fishing village to an entrepot for international trade and counts as one of the most important financial, trade and commercial centres in the world. There are many reasons for this evolution:

One country, two systems

Foremost in the mind of many doing business in this region, are the key issues concerning China after Hong Kong reverted to China's control on 1 July 1997. Under the terms of the 1984 Sino-British Joint Declaration, Hong Kong retains its free enterprise system for at least 50 years after that date. In 1990, China promulgated the Basic Law, the mini-constitution for Hong Kong Special Administrative Region (HKSAR), ensuring the implementation of "one country, two systems".

The Joint Declaration provides Hong Kong with a high degree of autonomy, which allows it to administer itself and pass its own legislation. This enables Hong Kong to control its own economic, financial and trade policies, and to participate in international organisations and trade agreements. The many factors contributing to Hong Kong's economic success remain intact.

Gateway to Mainland China

Hong Kong sits on the southern gateway to the Mainland China, and has developed into the main base for Chinese operations. As much as two-thirds of the total external investment in China goes through Hong Kong. The financial ties between Hong Kong and the neighbouring southern Chinese province of Guangdong (e.g. The Pearl River Delta ("PRD"))are especially strong.

PRD is one of the most densely urbanised regions in the world and one of the main hubs of Mainland's economic growth, which proximity to Hong Kong. It is the main base for Mainland's low-cost manufacturing and has emerged as a manufacturing platform of global importance. The PRD is the world leader in the production of electronic goods/products, electrical and electronic components, garments and textiles, plastic products and a range of other goods. The Chinese government has announced a 12 year plan to move the PRD up the value and cooperation with Hong Kong.

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Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA")

CEPA is the first free trade agreement entered into between the Mainland China and Hong Kong. The main text of CEPA was signed on 29 June 2003 and took effect on 1 January 2004.

The objectives of CEPA are to strengthen trade and investment cooperations between the Mainland and Hong Kong and to promote joint development of both sides through progressive reduction or elimination of tariff and non-tariff barriers on substantially all the trade in goods between the two sides; liberalization of trade in services through reduction or elimination of all discriminatory measures; and promotion of trade and investment facilitation.

CEPA brings new business opportunities to Mainland, Hong Kong and foreign investors. CEPA enables Hong Kong business to gain greater access to the Mainland market while Mainland corporations may make use of Hong Kong as a "springboard" to reach out to the global market thereby achieving fuller integration with the world economy. Foreign investors may make use of the Hong Kong advantage by setting up businesses in Hong Kong to leverage on the CEPA benefits and to access the vast opportunities of the Mainland market.

CEPA has been progressing smoothly over the years and up to now there are seven Supplements to CEPA signed between the two sides benefiting trades and service industries of the Mainland and Hong Kong.

The two sides have so far announced nearly 280 liberalization measures in trade in services. These measures expedite and facilitate Hong Kong service industries to enter and expand in the Mainland market, and foster service industries integration and professional exchanges between the two sides.

Furthermore, most of the new measures under Supplement VII to CEPA signed between the two sides on 27 May 2010 in Hong Kong cover the four pillar industries and six economic industries that Hong Kong has competitive edge, and as such will help consolidate Hong Kong's status as an international financial, trade, logistics and high value-added service centre, and will lay the foundation for the two sides to jointly develop education, medical services, as well as testing and certification, environmental, innovative technology and cultural industries.

Importing and exporting

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There is no trade barrier and no discrimination against foreign investors but freedom of capital movement. According to the World Investment Report 2011 published by the United Nations Conference on Trade and Development, Hong Kong continues to be Asia's 2nd largest and the world's 3rd largest FDI recipient.

In 2010, Hong Kong attracted US$68.9 billion inward investment and also continues to have the highest FDI stock in the region, enjoying a majority share of 30 percent (US$1 trillion).

Excise duties

The Government of HKSAR imposes excise duties on spirit and high alcoholic beverages, tobacco products, hydrocarbon oils and methyl alcohol. Otherwise trade is duty-free.

Under the Import and Export (Registration) Regulations, a person who imports or exports articles, other than an exempted article, should lodge with the Commissioner of Customs and Excise an accurate and complete import/export declaration within 14 days after the importation and exportation of the article.

Exemption of Wines and low alcoholic beverages from Excise duties

The growth in wine business has brought direct economic benefits to wine trading, distribution, auctions as well as other related economic activities such as catering services, tourism, brand promotion and exhibitions, wine appreciation and related educational activities.

From 2008 onward, wines and low alcoholic beverages are exempted from excise duties to enable Hong Kong to become the "Capital of Fine Wines" and the storage, auction and distribution centre of fine wines in Asia. The industry has responded positively since the exemption. According to the Commerce and Economic Development Bureau's survey report in mid-2010, there was an increase of about 850 wine-related companies in Hong Kong during year 2008 and 2009 (such as wine trading, distribution, retailing, storage, restaurants, bars, hotels and logistics companies); the number of persons engaged in wine-related business increased by more than 5,000; and companies received $5.5 billion wine-related business receipts in 2009, representing an increase of over 30% as compared with $4.1 billion in 2007.

Exchange controls

There are no exchange controls on any form of foreign investment.

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Given the highly externally oriented nature of the economy, a linked exchange rate system was introduced in late 1998 under which the US dollar exchange rate was fixed at HK$7.8 to USD 1.

Restrictions on foreign investment

With the exception of broadcast media, there are no restrictions on foreign investment. According the Index of Economic Freedom, Hong Kong's economy scored 90 on the economic freedom grading scale, making it the freest economy in the world.

Investment incentives

The Government of HKSAR takes an active but low interference policy. In addition to the above, it also adopts simple tax system with low tax rates.

According to the Forbes' Tax Misery Index 2009, Hong Kong has the lowest tax misery in Asia Pacific and 3rd lowest in the world. Hong Kong's tax misery is 37 points below Singapore and 117.5 points below Mainland China.

Language

The official languages of Hong Kong are Chinese and English. Contracts are mostly written, reviewed and executed in English.

Labour workforce

Hong Kong people are productive and well-trained. They have an essential mix of international market perception combined with different business culture in the fast-growing Mainland China and other cities around the world. Most of them can speak English, Cantonese and Putonghua.

Particular policies has been designed by the Hong Kong Immigration Department to attract professionals, talents and investors to ensure Hong Kong is continued competitiveness and enrich the quality of Hong Kong's workforce.

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3. Setting up a business

To start business in Hong Kong, it is necessary to obtain a business registration certificate from the Business Registration Office of the Inland Revenue Department. This applies to all forms of organisation:-

- Sole Proprietorship
- Partnership
- Non-Hong Kong company
- Representative office
- Limited Companies

The normal annual registration fee payable is currently HK$2,450.

Sole Proprietorship

The owner of a sole proprietorship business is personally liable without limit for the obligations of the business.

Partnership

The law relating to partnerships is contained in the Partnership Ordinance and the Limited Partnership Ordinance. A partnership must have at least two partners but no more than 20 partners. However, the maximum number restriction does not apply to partnerships formed by solicitors, accountants or stockbrokers.

In an unlimited or ordinary partnership, all the partners are jointly and severally liable without limit for the obligations of partnership. However, limited partnerships may be formed in which at least one partner has unlimited liability while the others have the protection of limited liability but have limited rights to profits and to the capital distribution on dissolution. They will also have no control on the management of the partnership.

The main cost involved in setting up will be the legal fee for drawing up the partnership agreement, which defines the constitution of the partnership. Alternatively, an oral agreement between the partners concerned can serve the same purpose. Any terms that are not expressly stated or decided will be governed by the Partnership Ordinance.

There are no requirements for a Hong Kong partnership to prepare audited financial statements. However, audited financial statements will be required if one of the partners is a company incorporated in Hong Kong since that partner has to prepare audited financial statements every year.

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

Non-Hong Kong company

A non-Hong Kong company that establishes a place of business in Hong Kong shall apply to the Registrar for registration under Part XI of the Companies Ordinance within 1 month of the establishment of that place of business, by submitting a specified forms and copies of its corporate documents and disclosing certain corporate information to the Registrar including:-

- Name of the company
- Place of incorporation of the company
- Date of establishing the place of business in Hong Kong
- Registration office and principal place of business overseas
- Name and address in Hong Kong of at least one person resident in Hong Kong who is authorized to accept on behalf of the company service of process, together with particulars
- Secretary and Directors, together with dates of appointment and particulars
- Address of the principal place of business of the company in Hong Kong and the respective addresses of the principal place of business (if any) and the registered office of the company in the place of its incorporation
- A certified copy of the charter, statutes or memorandum and articles on the formation and constitution of the company. If these documents are not in English or Chinese, a certified translation of them in English or Chinese
- A certified copy of the company’s certificate of incorporation, together with a certified translation of the certificate in English or Chinese if it is in a language other than English or Chinese

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- A certified copy of the latest financial statements of the foreign company, unless the foreign company is the equivalent of a Hong Kong private company and is not required by the law of its own country to publish its financial statements

An annual return containing information about directors and shareholders must be filed to the Companies Registry by non-Hong Kong company registered in Hong Kong every year together with a copy of the company's audited financial statements, and consolidated financial statements, if appropriate. The non-Hong Kong company registered in Hong Kong is free to remit its profits to its home country.

Representative Office

Representative office is useful if a company wishes to explore the Hong Kong market before making a larger investment and can only fulfill limited functions, for example promotion and liaison work. It is prohibited from carrying on any business in Hong Kong or entering into any contracts in Hong Kong. If the company commences the carrying on of a business, it will need to be changed to either a limited company or branch office of a parent company.

Limited Companies

Limited companies are regulated in Hong Kong under the Companies Ordinance. Public limited companies may offer their shares for sale to the public. Private limited companies are those which:

- Restrict the right of transfer of their shares;
- Limit the number of members to 50; and
- May not offer shares for sale to the public.

Most of the limited companies incorporated in Hong Kong are private companies limited by shares.

To incorporate in Hong Kong, a limited company must register its name at, and submit Incorporation Form NC1 (for company limited by shares), Notice to Business Registration office (IRB R1) and its memorandum and articles of association to, the Companies Registry. The memorandum states the company's name, registered office, authorised share capital and members' liability. The articles define the powers and other internal regulations for the management and procedures of the company. Registration may take up to two weeks. A quicker way to incorporate in Hong Kong is to purchase a ready-made company, which has not yet

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started business but has already been registered with the Companies Registry and has acquired a Certificate of Incorporation.

A private limited company in Hong Kong requires at least one director and one secretary. If the company has one director only, the sole director cannot be the secretary of the company at the same time. A non-Hong Kong resident can be appointed as a director. If the secretary is an individual, he/she should ordinarily reside in Hong Kong. If the secretary is a body corporate, its registered office or place of business should be in Hong Kong. There is no requirement for shareholders to be Hong Kong residents. The sole shareholder can be a director of the company.

Minimum capital requirements are not imposed on companies except for licensed banks, insurance and deposit-taking companies, and securities/commodities dealers. For companies with authorised capital over HK$10,000, an additional capital fee at the rate of 0.1% is payable to the Government of HKSAR.

A company must have a registered office in Hong Kong and maintain such records as registers of members, directors and secretaries and charges and minutes books of meetings. Certain accounting and business records are required to be kept in Hong Kong.

A Hong Kong company can freely remit tax-free dividends out of the retained distributable profits to an overseas investor.

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4. Licences and Legislations

Business licences

Certain businesses may require to obtain licences or registration before conducting a specific activity, e.g. money lender, restaurants, travel agencies, employment agencies, bank, fund managers, insurance brokers and lawyers.

Intellectual property rights

The Government of the HKSAR attaches great weight to the contribution that the creation of intellectual property makes to the economy. Intellectual property is the name commonly given to a group of separate intangible property rights, including trade marks, patents, copyright, designs, plant varieties and the layout design of integrated circuits.

In Hong Kong, a company or business name registration is not an indication of intellectual property rights. Company registration, business registration and trademark registration serve different purposes. They are regulated by separate laws and the registration systems are administered by different government departments.

Having registered a local or an overseas limited company with the Companies Registry, or obtained a business registration from the Business Registration Office, a company is still required to apply for the registration of its trademarks with the Trade Marks Registry in order to obtain the protection under the Trade Marks Ordinance.

Labour legislation

The Employment Ordinance is the main piece of legislation governing conditions of employment in Hong Kong. It covers a comprehensive range of employment protection and benefits for employees.

The Employment Ordinance requires that the terms and conditions of employment are conferred upon each employee by the employer regardless of whether the contract of employment is in writing or not. Employers are also required to maintain employment record regarding wages, holidays and leave records, etc.

Labour relations in Hong Kong are stable, compared with other nations in South East Asia. Industrial harmony is reflected by the small number of

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working days lost due to industrial conflicts, which is among the lowest in the world. In the case of labour disputes, the Labour Department offers conciliation service to the parties concerned to facilitate an amicable settlement.

The Employment Ordinance governs the employment of children (a person under the age of 15 years) in all economic sectors; and regulates the hours of work and the general conditions of employment of young people (a person of or over the age of 15 years but under the age of 18 years) in industrial undertakings. There is no other legal restriction on the number of hours of work. The median hours of working is 48 hours for both male and female workers. The unemployment rate in August 2011 was 3.2%.

Wages rates differ among various economic sectors, depending upon the level of skills and experience required.

Statutory Minimum Wage

The Statutory Minimum Wage comes into force on 1 May 2011 and the initial Statutory Minimum Wage rate is HK$28 per hour.

It applies to all employees, whether they are full-time, part-time or casual employees, and regardless of whether or not they are employed under a continuous contract as defined in the Employment Ordinance, with the following exceptions:

- persons to whom the Employment Ordinance does not apply
- live-in domestic workers
- student interns as well as work experience students during a period of exempt student employment

Mandatory Provident Fund (“MPF”)

Implemented by the Government of HKSAR, the MPF came into effect on 1 December 2000. Mandatory contributions are calculated at the rate of 5% of an employee's relevant income, with the employer matching the employee's contribution. Except for exempt persons and persons employed for fewer than 60 days, employees and the self-employed, aged between 18 and 65, are required to join MPF schemes. As at 31 August 2011, almost all employers and employees had joined MPF schemes and almost 77% of self-employed people had joined as well.

The Legislative Council has passed the amendment of minimum level of relevant income from the original level of HK$5,000 to HK$6,500, effective on 1 November 2011. For the contribution periods (wage periods in

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general) starting on or after the effective date, employees with a monthly relevant income less than HK$6,500 are not required to make the employee's part of contribution, but their employers have to make the employer's part of contribution. Self-employed persons with relevant income less than HK$6,500 monthly or HK$78,000 yearly do not have to make contributions.

Employee Rights & Benefits

The Employees' Compensation Ordinance requires the employer to have a valid insurance policy taken out to cover his liabilities for injuries at work in respect of every employee.

Entry visas and work permits

While nationals of Hong Kong's major trading partners do not need visas for short-term stays in Hong Kong, valid passports or other travel documents are required for all other visitors to Hong Kong.

Persons wishing to stay in Hong Kong must show evidence that they have been offered employment in Hong Kong, and must be in possession of an Employment Visa. Applications can be made at the Chinese Diplomatic and Consular Missions in their place of residence, or to the Hong Kong Immigration Department direct by post/through a local sponsor. In addition, anyone staying in Hong Kong for more than 180 days is required to apply for a Hong Kong Identity Card within 30 days of arrival.

In determining an application for an visa/workpermit to enter Hong Kong for employment or investment, the Immigration Department takes into consideration whether there is a genuine vacancy for an employee in the Hong Kong; the skills, knowledge and experience needed for the job; whether the terms and conditions of employment are comparable to those in the local market; the applicant’s suitable qualifications and experiences relating to the job; and whether the vacancy can be filled locally.

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5. Taxation

The law governing the imposition of tax in Hong Kong is contained in the Inland Revenue Ordinance ("IRO") and its subsidiary legislation, the Inland Revenue Rules ("IRR").

The tax system in Hong Kong is administered by the Inland Revenue Department ("IRD") under the direction of the Commissioner of Inland Revenue. Some assistance in interpreting the IRO is given in published interpretation notes. The department will also give advance rulings on specific transactions on request.

There is no taxation on capital gains, dividends or offshore income.

Instead of one all-encompassing income tax, Hong Kong has three separate and distinct direct taxes on income:

- Profits tax (corporation tax)
- Salaries tax (income tax)
- Property tax (real estate tax)

Hong Kong tax is territorial in nature so that only income which has a source in Hong Kong is taxable. Various rules are adopted by the courts to determine sources of income and all circumstances of the transactions are considered. In certain specific cases, other income may be deemed to be from a Hong Kong source. By corollary, income that is not included in one of the above categories, or does not arise in or derive from Hong Kong, is not subject to tax.

Because of the territorial nature of taxation, except in very limited cases, no distinction is made in Hong Kong between resident and non-resident companies and persons because tax is determined according to the source of income, not residency, domicile or nationality.

Individuals who ordinarily reside in Hong Kong can apply in writing to elect for Personal Assessment to compute tax liability of the three taxes in a single assessment. Under personal assessment, incomes originally subject to profits tax, salaries tax and property tax are aggregated and from this total interest payments on money borrowed for the purpose of producing property income, approved charitable donations, elderly residential care expenses, home loan interest, business losses incurred in the year of assessment, losses brought forward from previous years under personal assessment and personal allowances may be deducted. Tax at

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progressive rates will be imposed on the balance. Married couples not living apart are assessed jointly under personal assessment.

A description of the three direct taxes and other indirect taxes is given below:

Profits tax

1. Corporations and unincorporated entities carrying on a trade, profession or business in Hong Kong are assessable to tax on all profits arising in, or derived from, Hong Kong from such trade, profession or business.

2. Computation of taxable profits.

Assessable profits

Assessable profits are profits arising in or derived from Hong Kong whether directly or through an agent. This is arrived at by adjusting the profits calculated under the generally accepted accounting principles to comply with the IRO.

Excluded income

a) Profit from the sale of capital assets;
b) Income not arising in or derived from Hong Kong;
c) Dividends;
d) Income already charged elsewhere to profits tax, eg. From partnerships;
e) Certain types of interest income;
f) Interest income derived from local financial institutions effective from 22 June 1998; and
g) Distributions and payments under a stock borrowing and lending arrangement.

Deductible expenses

Deductions are allowed for revenue expenditure incurred in producing assessable profits in the basis period which include:

a) Loan interest and related expenditures in general;
b) Rent;

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c) Bad and doubtful debts;
d) Aggregate of approved charitable donation up to the limit of 35% of assessable profits after depreciation allowances but before charitable donations, and such aggregate must not be less than HK$100;
e) Certain foreign taxes;
f) Repairs to premises, plant and machinery;
g) Replacements of implements, utensils or articles;
h) Registration and purchase of trade marks, patents or designs;
i) Contributions to retirement scheme but limited to 15% of the total emoluments for the relevant period in respect of any one employee;
j) Scientific research expenses (see capital expenditure below);
k) Building refurbishment expenditure (see capital expenditure below);
l) Prescribed fixed assets (see capital expenditure below); and
m) Technical education expenses.

Non-deductible expenses

a) Domestic or private expenses and any expenses not for producing assessable profits

b) Capital expenditure including capital losses and withdrawals are not deductible for tax purposes. However capital allowances are granted to the following types of assets:

Depreciation allowances

- **Industrial building and structure**

An initial allowance of 20% is given in respect of capital expenditure incurred in the construction of an industrial building or structure occupied for the purposes of certain trade and an additional allowance of 4% of the expenditure is given annually until the total expenditure is written off.

- **Commercial buildings and structures**

A building or structure not included above but held for the purposes of carrying on a trade, profession or business, other than as trading stock, can qualify for a rebuilding allowance at an annual rate of 4% of the capital expenditure incurred in the construction.

- **Prescribed fixed assets**

Capital expenditure on plant and machinery used specifically and directly for any manufacturing process and the acquisition cost of

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computer system including both hardware and software are 100% deductible.

- **Plant and machinery other than prescribed fixed assets**

An initial allowance of 60% of the cost and an annual allowance computed on the reducing value are granted. The annual rate ranges from 10% to 30% according to the prescribed rules. Assets falling under the same rate are pooled together for the computation.

On disposal, the proceeds received, but restricted to the original cost, will be deducted from the reducing value of the pool. In other words, the excess of the proceeds over the original cost is not taxable.

- **Expenditure on research and development, and technical education**

Capital expenditure on research and development and technical education including market, business or management research and technical education payments, other than expenditure on land or buildings or on alterations, additions or extensions to buildings, is 100% deductible.

On disposal, the proceeds of sale, to the extent of the amount of the deduction, will also be treated and taxed as a trading receipt arising in or derived in Hong Kong.

- **Expenditure on environmental protection facilities**

Capital expenditure on specified environmental protection machinery is 100% deductible during the basis period in which the expenditure is incurred starting from 2008/09.

An annual allowance of 20% of capital expenditure on specified environmental protection installation to industrial or commercial buildings is allowed over five consecutive years starting from 2008/09.

- **Expenditure on building refurbishment**

Capital expenditure on the renovation or refurbishment of a building or structure other than a domestic building or structure may claim the expenditure as an outgoing or expense in equal instalments over five years of assessment, to the extent that it is incurred in the production of profits chargeable to tax.

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c) Cost of improvement

d) Taxes payable under the IRO except salaries tax paid on behalf of an employee

e) Provision, but not actual contribution, in respect of a known liability under an unapproved retirement scheme

f) Any remuneration or interest on capital or loans payable to members or their spouses of a partnership or sole proprietor, and

g) Contributions to a retirement scheme in excess of 15% of emoluments.

3. There is no capital gains tax.

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

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

6. There are certain receipts deemed by the IRO to be derived in Hong Kong. These include royalties received for the use in Hong Kong of a patent, trademark, know-how, copyright or film. These deemed receipts if paid to non-residents are subject to withholding tax. The assessable profit is deemed to be 10% of the payment except in the case when the sum is derived from an associate, then 100% of the payment will be assessable.

7. A person may apply to the Commissioner of the Inland Revenue, subject to payment of fees and certain regulations, for an advance ruling on how any provision of the IRO applies to him or the arrangement specified in the application.

8. There are specific provisions in the IRO to cover special types of business as follows:

- Life insurance
- Other insurance

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- Shipping (include aircraft)
- Clubs/trade associations
- Partnership

Salaries tax

1. All income of individuals arising in or derived from Hong Kong, from any office, employment or pension, including income derived from services rendered in Hong Kong, is subject to salaries tax. The individual income, less allowable deductions, charitable donations and personal allowances, (equivalent to net assessable income) is chargeable to salaries tax at the progressive rates from 2% up to 17%. The maximum salaries tax payable is, however, limited to tax at the standard rate of 15% on the individual's net assessable income.

2. An expatriate employee employed by a local employer has no salaries tax liability only if he visits Hong Kong for not more than 60 days in a tax year. Where an expatriate employed by a foreign employer renders services in Hong Kong during visits exceeding 60 days in a relevant year of assessment, only that part of his income attributable to services rendered in Hong Kong during his visits is subject to salaries tax.

3. Income includes the value of accommodation provided rent-free by an employer or the excess of the value over the rent actually paid by the employee to his employer for the accommodation, subject to a maximum of 10% of the employee's total income from the employer.

4. Deductions allowable from income include personal basic, married person, child, dependant parent/grandparent/brother/sister, disabled dependant parent/spouse/child/grandparent/brother/sister and single parent allowances, self-education expenses, elderly dependant in institutional care expenses, home mortgage loan interest and contributions to recognised retirement schemes.

Property tax

Property tax is charged on the owner of land and/or buildings in Hong Kong, which are generating rental income, at a standard rate of 15% on the net assessable value. The assessable value is the rental income earned by the owner of land and/or buildings, less any irrecoverable rental receivable during that year, less rates paid by the owner and a 20% notional allowance of this net figure for repairs and outgoings.

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A company subject to profits tax may apply in writing for an exemption from property tax in respect of any property occupied by the company for the purpose for producing profits chargeable to profits tax.

Provisional tax

On top of the tax on assessable profits/income/value, a taxpayer is required to pay a provisional profits/salaries/property tax, based on the actual assessable profits/income/value for the preceding year of assessment. When the actual assessable profits/income/value for the year of assessment is ascertained, a final assessment is issued and credit is given for the provisional tax paid. Any excess/deficit of provisional tax paid over the final liability is offset against/added to the provisional tax payable for the following year of assessment. When any balance of provisional tax is available, it is refunded to the taxpayer. There are provisions to enable collection of profits, salaries and property taxes, and provisional taxes to be held over in appropriate circumstances.

Tax treaties / Double Taxation

The Government of HKSAR establishes a double tax agreement (DTA) network that would minimize exposure of Hong Kong residents and residents of the DTA partner to double taxation. Due to the international nature of aircraft and shipping operations, airline and shipping income are more susceptible to double taxation than other taxpayers. It has been Hong Kong's policy to include double taxation relief arrangements for airline income in the bilateral Air Services Agreements negotiated between Hong Kong and the aviation partners. Hong Kong has entered into negotiations of double taxation relief arrangements for shipping income with other places that either do not provide reciprocal tax exemption in their legislation or, even reciprocal exemption provisions exist, prefer conclusion of a bilateral agreement.

Anti-avoidance measures

If a transaction is entered into for the 'sole or dominant purpose' of enabling a tax benefit to be conferred, the IRD has the power to assess tax liabilities as if the transaction had not taken place, or otherwise counteract the tax benefit.

Indirect taxes

1. Sales or turnover tax

   At present, there is no sales tax or value added tax in Hong Kong.

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2. Stamp duty

Stamp duty is chargeable on the following transactions:

- Transfer of shares at an effective rate of 0.1% on the higher of sale proceeds or market value
- Leases and assignment of leases
- Assignment of immovable property in Hong Kong. With effect from 1 April 2010, sale of immovable property in Hong Kong is charged at rates which vary with the amount or value of the consideration as follows:-

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Amount or value of the consideration		Rate
Exceeds	Does not exceed	
HK$0	HK$2,000,000	HK$100
HK$2,000,000	HK$2,351,760	HK$100 + 10% of excess over HK$2,000,000
HK$2,351,760	HK$3,000,000	1.5%
HK$3,000,000	HK$3,290,320	HK$45,000 + 10% of excess over HK$3,000,000
HK$3,290,320	HK$4,000,000	2.25%
HK$4,000,000	HK$4,428,570	HK$90,000 + 10% of excess over HK$4,000,000
HK$4,428,570	HK$6,000,000	3%
HK$6,000,000	HK$6,720,000	HK$180,000 + 10% of excess over HK$6,000,000
HK$6,720,000	HK$20,000,000	3.75%
HK$20,000,000	HK$21,739,120	HK$750,000 + 10% of excess over HK$20,000,000
HK$21,739,120		4.25%

- With effect from 1 September 2001, sale and purchase of Hong Kong shares is charged at an effective rate of 0.1% on the higher of sale proceeds or market value.

Special Stamp Duty

The Stamp Duty (Amendment) Ordinance 2011, which is effective from 20 November 2010, imposes Special Stamp Duty (SSD) on the acquisition and disposal of residential properties on top of ad valorem stamp duty. Unless the transaction is exempted from SSD or SSD is not applicable, any individual or company (regardless of where it is incorporated) which acquires a residential property on or after 20 November 2010 and resells it within 24 months will be subject to SSD.

SSD is calculated on the basis of the following two factors:-

1. the stated consideration or the market value of the property (which is higher);

2. the rates based on the holding period of the property by the seller before disposal:-
    - 15% if the property has been held for six months or less;
    - 10% if the property has been held for more than six months but

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for 12 months or less;

- 5% if the property has been held for more than 12 months but for 24 months or less.

Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 comes into effect on 11 February 2006. No estate duty affidavits and accounts need to be filed and no estate duty clearance papers are needed for the application for a grant of representation in respect of deaths occurring on or after that date.

Rates

Rates are charged at a percentage of the rateable value which is the estimated annual rental value of a property at a designated valuation reference date, assuming that the property was then vacant and to let.

For the current Financial Year 2011-2012, the rates percentage charge is 5% and the designated valuation reference date is 1 October 2010.

Imports and excise duties

High alcoholic beverages, tobacco, certain hydrocarbons and methyl alcohol are subject to duty if they are imported into Hong Kong for local consumption. Private motor vehicles are subject to a first registration tax.

From 2008 onwards, wines and low alcoholic beverages are exempted from excise duties to enable Hong Kong to become the "Capital of Fine Wines" and the storage, auction and distribution centre of fine wines in Asia. It is expected that the turnover will exceed US$870 million in 2017 and account for 60% of the Asian wine market.

Hotel accommodation tax

With effect from 1 July 2008, the 3% hotel accommodation tax was waived until further notice by the Government of HKSAR.

Betting duty

Duty is chargeable on bets made on authorised totalisators or pari-mutuels, cash sweeps and lotteries conducted by the Hong Kong Lotteries Board from 25% to 75%.

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Tax on deeming assessable profits

Tax is chargeable at 30% on deeming assessable profits for certain payments made or accrued to non – resident persons, such as royalties and licence fees.

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6. Accounting and Reporting

Accounts and Audit

Every company should keep proper books of accounts in respects of all receipts, payments, sales and purchases of goods and assets and liabilities of the company. A company should retain its business and accounting records for not less than 7 years.

It is also required to prepare a profit and loss account and a balance sheet every year, accompanied by a directors' report. The profit and loss account and balance sheet have to be audited by a certified public accountant, registered under the Professional Accountants' Ordinance in Hong Kong.

The Directors should lay before the shareholders in its Annual General Meeting a profit and loss account and balance sheet.

Annual General Meeting

A company should hold meeting of shareholders every year and not more than 15 months shall elapse between the date of one annual general meeting and the next. The first annual general meeting must be held within 18 months of its incorporation.

The business transacted at an annual general meeting is regulated by the company's articles of association and would typically include the consideration of the company's financial statements and the reports of the directors and auditor, the declaration of dividends, election of directors and the appointment of auditor.

Filing of Annual Returns

Private companies having share capital must file an annual return with the Registrar of Companies within 42 days from the anniversary of its date of incorporation. The annual return contains details concerning, mainly, the share capital of the company; its directors; its secretary and shareholders; its indebtedness in the form of mortgages and charges; all business names under which the company carries on business; and the address of its registered office.

Companies other than private companies with share capital must file an annual return with the Registrar of Companies within 42 days after the annual general meeting. The annual return of public companies must also

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include a certified copy of the financial statements, together with the relevant auditor's and directors' reports. Private companies are not required to file annual financial statements with the Registrar of Companies.

Companies, other than public companies, are not required to file their audited financial statements with the Registrar of Companies. However, audited financial statements must be filed with the IRD every year as part of an annual profits tax return.

A non-Hong Kong company registered in Hong Kong must file with the Registrar of Companies a copy of the company's audited financial statements, and consolidated financial statements, if appropriate, every year.

Payroll records

A company, as an employer, has obligations to keep proper payroll records starting from hiring of the first employee. The record of employees including personal particulars, nature of employment, capacity in which employed, amount of cash remuneration, non-cash and fringe benefits, contributions to the MPF or its equivalent, employment contract, period of employment, etc.

The company should inform IRD of staff commencing and terminating employment with the company and report annually the remuneration and other benefits paid to the employees, who shall be subject to salaries tax in Hong Kong.

7. Contacts

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