



 **DOING BUSINESS  
IN HONG KONG**



**MAZARS**



350  
professionals



19  
partners



1  
office

## MAZARS IN HONG KONG

Mazars in Hong Kong is part of the Mazars group, unique as an international, integrated and independent partnership. Mazars is also a member of the Praxity Alliance, which ranks among the top 10 of the international accounting firms in size and global billings.

With 350 highly skilled professionals, Mazars Hong Kong provides a full range of services including audit, tax, accounting and outsourcing, business advisory, corporate finance, business risk advisory, corporate restructuring and forensic investigation. To date, including the Hong Kong office, we operate 30+ offices in China with more than 5,000 staff, who are dedicated to serving the growing and diversified needs of both Chinese and international businesses.

Mazars in Hong Kong recognizes that a comprehensive range of skills, expertise and experience can make all the difference to the success of your business. Even when highly specialized services are required, Mazars Hong Kong is well equipped to serve as your coordinator to oversee the successful completion of your assignment.

MAZARS IS AN INTERNATIONALLY INTEGRATED PARTNERSHIP, SPECIALISING IN AUDIT, ACCOUNTANCY, ADVISORY, TAX AND LEGAL SERVICES\*. OPERATING IN 91 COUNTRIES AND TERRITORIES AROUND THE WORLD, WE DRAW ON THE EXPERTISE OF 40,400 PROFESSIONALS – 24,400 IN THE MAZARS INTEGRATED PARTNERSHIP AND 16,000 VIA THE MAZARS NORTH AMERICA ALLIANCE – TO ASSIST CLIENTS OF ALL SIZES AT EVERY STAGE IN THEIR DEVELOPMENT.

\*Where permitted under applicable country laws



# CONTENTS

1. GENERAL INFORMATION .....	06
2. ESTABLISHING AN ENTITY .....	07
3. FOREIGN BUSINESS RESTRICTIONS .....	09
4. INVESTMENT INCENTIVES .....	10
5. WORK PERMITS AND VISAS .....	11
6. FOREIGN CURRENCY CONTROL .....	12
7. TAXATION .....	13
8. EMPLOYMENT .....	15
9. AUDIT & ACCOUNTING .....	17
10. COUNTRY QUIRKS .....	18

THE GUIDE HAS BEEN PREPARED FOR THE ASSISTANCE OF THOSE INTERESTED IN DOING BUSINESS IN HONG KONG. IT DOES NOT COVER EXHAUSTIVELY THE SUBJECTS IT TREATS, BUT IT IS INTENDED TO ANSWER SOME OF THE IMPORTANT BROAD QUESTIONS THAT MAY ARISE. WHEN SPECIFIC ISSUES ARISE IN PRACTICE, IT WILL OFTEN BE NECESSARY TO CONSIDER THE RELEVANT LAWS AND REGULATIONS AND TO OBTAIN APPROPRIATE PROFESSIONAL ADVICE. THE PUBLISHERS AND AUTHORS ARE NOT RESPONSIBLE FOR THE CONSEQUENCES OF ANY ACTIONS WHICH ARE UNDERTAKEN ON THE BASIS OF THE INFORMATION WHICH IS CONTAINED WITHIN THIS PUBLICATION, NOR FOR ANY ERROR OR OMISSION HEREIN.



 **INTRODUCTION**

Welcome to Hong Kong!

As a leading global finance center and a historically open economy, it is worth remembering that Hong Kong has been a Special Administrative Region (SAR) of the People's Republic of China (PRC) since 1997. But Hong Kong enjoys great autonomy from the mainland, and the city has retained its reputation for ease of doing business and free trade. It frequently attracts the attention of foreign investors looking for an entry point to the Asian market.

Hong Kong is an important banking and financial center in the Asia Pacific region, and the Hong Kong Stock Exchange ranks the third largest in Asia and the fifth in the world in terms of market capitalization, as at 31 December 2019. Hong Kong ranked first in the global IPO market in 2019.

Hong Kong was the third-ranked location in the world in terms of ease of doing business according to the World Bank Doing Business Survey conducted in June 2019. Its simple, low cost tax structure has made Hong Kong a natural regional hub for multinational companies doing business in Asia. In addition, Hong Kong is a free port and generally does not levy customs duties except for a very limited number of goods. Because of its attractive business environment, Hong Kong receives the second largest amount of foreign investment in Asia and the fourth largest in the world.

Hong Kong is also the perfect gateway to access the dynamic and emerging market of mainland China, attracting many leading international businesses to choose setting up their regional operations in Hong Kong.

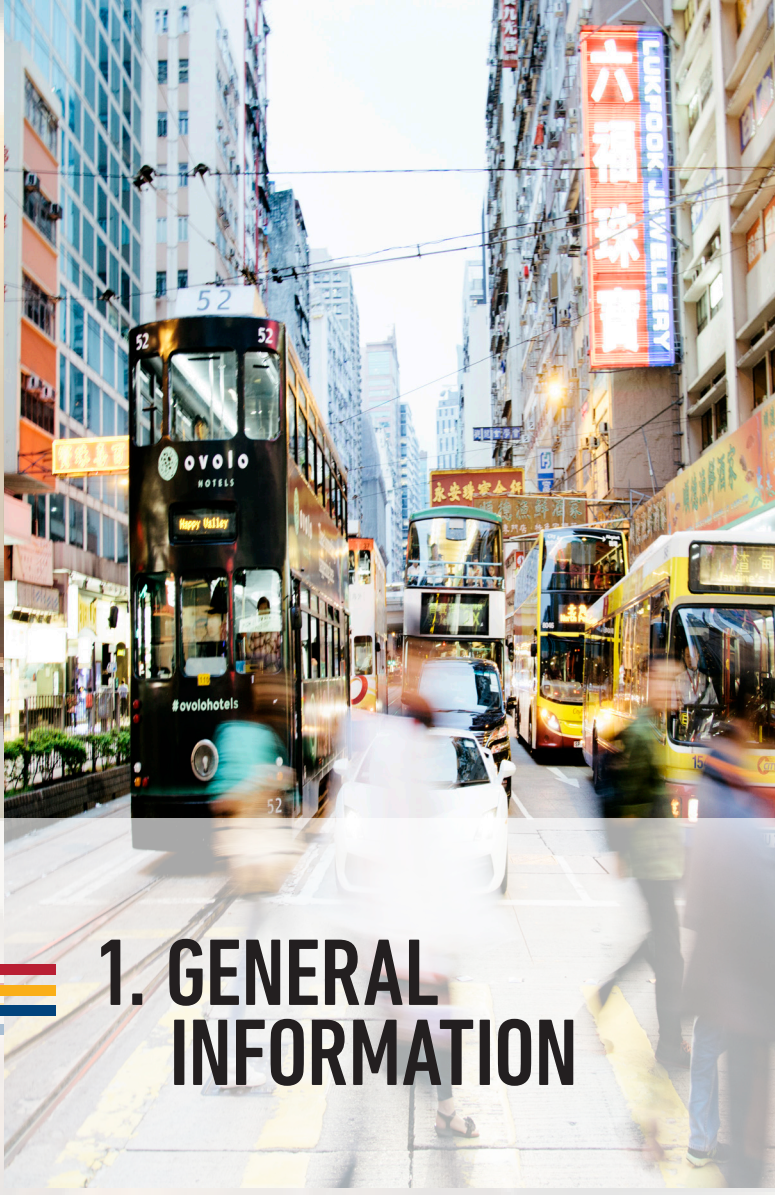
In the second half of 2019 and into 2020 Hong Kong has been experiencing first ongoing social unrest and then the impact of dealing with the impact of COVID-19. These have been well documented in the media, but inevitably have negatively affected Hong Kong's GDP for 2019, and likely also for 2020. The openness of Hong Kong's economy makes it sensitive to downturns in trade and investment flows, but it has also shown its ability to rebound quickly once the conditions change, as they did post SARS in 2003 and after the GFC in 2009/10.

This guide offers you an overview of the main features of Hong Kong as a potential location for your business. It is meant to be a practical resource and will be updated regularly. We will be more than happy to provide you with any further information that you need so please feel free to ask. You can find our contact details on the last page.

We look forward to welcoming you to Hong Kong. In the meantime, we hope you enjoy our Guide.



Stephen Weatherseed  
Managing Director  
Mazars CPA Limited



# 1. GENERAL INFORMATION

**GDP GROWTH: -1.2 %\***

**INFLATION: 2.9 %\***

**POPULATION: 7.5\* MILLION**

**GDP PER CAPITA :  
USD 48,000**

**WORLD BANK EASE OF  
DOING BUSINESS RANK :  
3RD<sup>^</sup>**

\* DATA COLLECTED FROM HKSAR AS OF 2019

<sup>^</sup>DATA COLLECTED FROM DATA.WORLDBANK.ORG  
AS OF 2019



## 2. ESTABLISHING AN ENTITY

There are three basic ways of establishing a business in the Hong Kong Special Administrative Region (HKSAR):

- Sole proprietorship or partnership
- Limited liability company
- Branch office or representative office of a foreign company incorporated outside of the HKSAR

### 2.1 SOLE PROPRIETORSHIP

Other than ensuring that business registration requirements are complied with, there are no statutory restrictions on the way in which an owner runs the business (provided it is legal). However, a sole proprietorship gives rise to unlimited liability for the owner, and therefore it is not normally recommended.

## 2.2 PARTNERSHIP

General and unlimited partnerships are formed under the Partnership Ordinance. In a general partnership, all partners are jointly and individually liable without limit for the debts and obligations of the partnership. Each partner is also personally liable, without limitation, for all the debts and obligations of the partnership not satisfied by the partnership assets. It is possible to register, with the Registrar of Companies, a limited partnership, which is governed by the Limited Partnership Ordinance, under which the liability of at least one of the partners must remain unlimited.

## 2.3 LIMITED COMPANY

Limited companies may be either private or public companies limited by shares or a guarantee company without share capital and the operation of which is subject to the provisions of the Companies Ordinance. The liability of members of a company for the company's debts is limited to the issued share capital, or in the case of a company limited by guarantee, to the amount of the guarantee.

Most business operations in the HKSAR are private companies limited by shares, whose articles of association:

- Restrict the right to transfer the company's shares.
- Limit the number of members to 50.
- Prohibit any invitation to the public to subscribe for shares or debentures.

Any company whose articles of association do not contain these three restrictions is a public company and is subject to additional requirements beyond the scope of this guide.

## 2.4 BRANCH OR REPRESENTATIVE OFFICE

Any overseas company that establishes a place of business in the HKSAR is required to register pursuant to the Companies Ordinance. A place of business includes a share transfer or share registration office, any place used for the manufacture or warehousing of goods, and/ or a place used by the company to transact any business, which creates legal obligations. If the office in the HKSAR has a liaison function and no business is conducted in the HKSAR that creates legal obligations, then the only action that must be taken is for the company to register a representative office under the Business Registration Ordinance.



Essentially, there is no restriction on foreign business setting up in Hong Kong nor is there any foreign exchange control. There is also no Hong Kong residential requirement for shareholders and directors of an entity in the HKSAR.



## 3. FOREIGN BUSINESS RESTRICTIONS



## 4. INVESTMENT INCENTIVES

There are few incentives to promote business investments since its low tax rates, excellent financial infrastructure and favorable investment climate are considered as sufficient to attract investments in Hong Kong.

In recent years, Hong Kong introduced tax incentives to certain targeted industries / sectors such as the fund industry, insurance industry, corporate treasury centres and aircraft leasing.

Qualified R&D expenditure may enjoy up to 300% tax deduction for the first HK\$2 million of such expenditure. The remainder will be entitled to 200% tax deduction without any cap.



## 5. WORK PERMITS AND VISAS

Other than those who have the Right of Abode or Right to Land in the HKSAR, all foreigners require a visa to live and work in Hong Kong.

As a general rule, any person who wishes to study, enter into employment, invest in Hong Kong, settle in Hong Kong for permanent residence, or stay as a visitor longer than the allowed visa free period, must obtain a proper visa before coming to the HKSAR via a Chinese Consulate or Visa Office in his/her country of residence or citizenship.

People who take up residence in the HKSAR are required to register for an identity card by law. After living in the HKSAR for seven years, one can apply for a permanent identity card. If successful, there will be no subsequent requirement for a visa or a work permit.



## 6. FOREIGN CURRENCY CONTROL

There are no exchange controls or restrictions on capital flows in and out of Hong Kong. The local currency is the Hong Kong Dollar (HKD).

Since 1983, the HKD has been officially pegged at  $\text{HKD}7.80 = \text{USD}1.00$ . Accordingly, the exchange rate of HKD to other currencies and Hong Kong interest rates typically follow US fluctuations.



## 7. TAXATION

**7.1** There is no value added tax, sales tax or capital gains tax in Hong Kong.

### **7.2 PROFITS TAX**

Profits tax is imposed for each tax year on Hong Kong-sourced profits derived from a trade, profession or business carried on in Hong Kong. There is no distinction between residents and non-residents. The source of profits is determined by an “operations test” (i.e. identifying the activities which directly produce the relevant profits and the place where these activities are carried out). Expenses are generally deductible to the extent that they are incurred in the generation of assessable profits.

A tax year covers a period of 12 months commencing on 1st April and concluding on 31st March of the following year. Profits earned by a business during an accounting year ending within a tax year will be deemed to be its profits for that tax year.

Tax losses incurred cannot be carried back but can be carried forward indefinitely to offset against any future assessable profits. Anti-avoidance provisions restrict the use of tax losses where a change in shareholding was undertaken solely or dominantly for the purpose of utilising the losses to obtain a tax benefit.

Under the two-tiered profits tax rates regime effective from year of assessment 2018/19, the profits tax rate for corporations is 8.25% on assessable profits up to \$2 million and 16.5% on any part of assessable profits over \$2 million. For unincorporated businesses, the profits tax rate is 7.5% on assessable profits up to \$2 million and 15% on any part of assessable profits over \$2 million. However, for two or more connected entities, only one of them may elect for the two-tiered profits tax rates.

of tax limited to the standard rate of 15% on the taxpayer's net assessable income (i.e. income after deduction of expenses but with no personal allowances granted).

### 7.3 SALARIES TAX

Salaries tax is imposed for each tax year on an individual's income arising in or derived from Hong Kong from any office, employment or any pension. For Hong Kong employment, all income derived will normally be subject to salaries tax; even if some services are performed outside of Hong Kong. Income from non-Hong Kong employment is only taxed to the extent that is derived from services rendered in Hong Kong.

In determining whether an employment is a Hong Kong employment or a non-Hong Kong employment, the practice of the Inland Revenue Department is to take into account all of the relevant facts with particular emphasis on where the employment contract was negotiated, entered into and where it is enforceable; where the employer is resident; and where the employee's remuneration is paid to him/her. Income from services rendered during visits to Hong Kong by a person not exceeding 60 days in a tax year is exempted.

Salaries tax is charged at progressive rates from 2% to 17% on a taxpayer's net chargeable income (i.e. income after deduction of expenses and personal allowances), with the maximum



## 8. EMPLOYMENT

The Employment Ordinance is the law governing employment practice and labour relations in Hong Kong.

### 8.1 TYPES OF EMPLOYMENT

All employees in Hong Kong (except seamen, apprentices, and family members living in the same dwelling) are entitled to wage protection and statutory holidays. After 4 weeks of employment with at least 18 hours of work per week, an employee automatically falls under a continuous contract and can receive other benefits.

An employment contract must stipulate the wage, wage period, notice requirements, and bonus calculations if applicable. If a contract is in writing, the employee must receive a copy; and if the contract is made verbally, the employee is entitled to a copy if he/she requests one.

Additionally, the employer must keep records of the employee's name, identity card number, job title, wage, wage period, notice requirement, leave entitlement and record, as well as payments made during leave. If applicable, the employer must also keep a record of the number of hours in a wage period, bonus calculations, and date of termination.

## 8.2 WORKING HOURS AND COMPENSATION

Wages must be paid out within 7 days after the wage period. There is no statutory provision on regular working hours and overtime hours in Hong Kong, which must be specified in the employment contract. Employers are only required to provide 1 rest day every week. The average full-time employee in Hong Kong works 49 hours a week and over half of employees receive no remuneration for overtime.

## 8.3 WAGES AND BENEFITS

### MINIMUM HOURLY WAGE

Since 2011, Hong Kong has enforced a statutory minimum wage. The current level of minimum wage is HKD 37.50 per hour.

### PAID LEAVE

Each full time employee is entitled to 12 days of statutory holidays. Moreover, an employee who has rendered 1 year of service is entitled to a minimum of 7 days of paid leave annually. After the third year of service, the minimum number of paid leave days increases by 1 every year, up to a cap of 14 days.

### MANDATORY PROVIDENT FUND

The Mandatory Provident Fund (MPF) is designed to provide a formal, compulsory system of retirement protection by way of a privately managed contribution scheme. Generally, all benefits derived from mandatory contributions must be preserved until the contributor reaches the prescribed retirement age of 65. Early withdrawal of benefits may be allowed when a person: (a) retires between ages 60 and 65; (b) has departed or will depart from Hong Kong permanently; (c) has become totally incapacitated; or (d) has died before the age of 65. The benefits accrued from mandatory contributions to MPF schemes are withdrawn in a lump sum upon retirement rather than as an annuity.

Certain categories of employees are not required to join an MPF scheme, including employees who are covered by overseas retirement schemes, and foreigners who enter Hong Kong for employment with a working visa for a validity period that does not exceed 13 months.

Under the MPF system, the employee is required to contribute 5% of his/her monthly income (capped at HKD18,000 p.a) and the employer has to match this amount. Each employee and employer may make voluntary contributions in addition to the mandatory contributions.

## 8.4 TERMINATION OF EMPLOYMENT

An employee may be eligible for severance payment or long service payment under certain conditions. An employee, who has been employed for not less than 24 months, is entitled to severance payment if the employee was laid off or dismissed by reason of redundancy. Certain employees who have been employed under a continuous contract for not less than 5 years are entitled to a long service payment. The amount payable is the lower of 2/3 of the previous month's salary or 2/3 of HKD 22,500, multiplied by the recognizable years of service. The payment is capped at HKD 390,000.

The service of an employee can be terminated and the employer/the employee should be given notice according to the employment contract. If it is not specified in the employment contract, at least 1 month notice should be given before the date of termination.

Summary dismissal is allowed only if the employee has committed serious misconduct or habitually neglects his/her duties and fails to improve after repeated warning. The employee may disagree and file a case with the Labour Tribunal. An employee can terminate the employment without notice if he/she is reasonably threatened by violence or disease, subjected to ill-treatment by the employer, or certified permanently unfit for the work by a registered medical practitioner after 5 years of service.





## 9. AUDIT & ACCOUNTING

All companies incorporated under the Companies Ordinance, regardless of size, must have their (annual) financial statements audited by a practising Certified Public Accountant registered with the Hong Kong Institute of Certified Public Accountants (HKICPA).

Hong Kong Financial Reporting Standards (HKFRS) issued by the HKICPA, which are almost fully converged with International Reporting Financial Standards (IFRS), are commonly adopted for the preparation of financial statements of companies incorporated under the Companies Ordinance. Hong Kong also adopts the Hong Kong variation of IFRS for SMEs, which is known as HKFRS for Private Entities, for companies that do not have public accountability. SMEs that meet certain

criteria, including a size test and shareholders' approval, can also choose to apply the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standards (SME-FRF & SME-FRS).



## 10. COUNTRY QUIRKS

### **LEGAL SYSTEM :**

ORIGINATED AND BASED ON ENGLISH COMMON LAW, UNLIKE THAT OF MAINLAND CHINA.

THERE IS NO RESTRICTION ON FOREIGN BUSINESS NOR IS THERE ANY FOREIGN EXCHANGE CONTROL .

THE HKD HAS BEEN PEGGED TO THE USD SINCE 1983 AT A FIXED RATE OF HKD 7.8 = USD 1

### **OFFICAL LANGUAGES:**

ENGLISH & CHINESE

# CONTACT

**Mazars CPA Ltd.**  
42/F  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2909 5555  
Fax: (852) 2810 0032

**Stephen Weatherseed**  
Managing Partner  
[stephen.weatherseed@mazars.hk](mailto:stephen.weatherseed@mazars.hk)

**Jimmy Yip**  
Head of Audit  
[jimmy.yip@mazars.hk](mailto:jimmy.yip@mazars.hk)

**Annie Chan**  
Managing Director, Corporate Recovery &  
Forensic Services  
[annie.chan@mazars.hk](mailto:annie.chan@mazars.hk)

**Michael To**  
Head of Tax  
[michael.to@mazars.hk](mailto:michael.to@mazars.hk)

**Gilles-Alexandre Salansy**  
Head of Accounting Outsourcing Services  
[gilles.salansy@mazars.hk](mailto:gilles.salansy@mazars.hk)

**James Ye**  
Head of Business Risk Consulting  
[james.ye@mazars.hk](mailto:james.ye@mazars.hk)

[www.mazars.hk](http://www.mazars.hk)

Follow us on:

