

# DOING BUSINESS

IN HONG KONG



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for doing  
business

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# 1 – INTRODUCTION

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UHY is an international organisation providing audit, accountancy, business management and consultancy services through financial business centres in over 85 countries worldwide.

Business partners work together throughout the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in Hong Kong has been provided by the office of UHY's representative there:

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Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at October 2014.

We look forward to helping you do business in Hong Kong.

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## 2 – BUSINESS ENVIRONMENT

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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 Mainland China, and has developed into the main base for Chinese operations. As much as two-thirds of the total external investment in Mainland 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 the Mainland's economic growth, which proximity to Hong Kong. It is the main base for the 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.

## 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 the 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 ten 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 403 liberalization measures in trade, investment services.....etc. 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 X to CEPA signed between the two sides in August 2013 which also cover 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

There is no trade barrier and no discrimination against foreign investors but freedom of capital movement. According to the World Investment Report 2013 published by the United Nations Conference on Trade and Development, Hong Kong was the world's 3rd largest Foreign Direct Investment ("FDI") recipient. It also marked the 14th consecutive year that Hong Kong was the 2nd largest FDI recipient in Asia Pacific, after Mainland China.

## 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.

Since the removal of all duty-related customs and administrative controls in February 2008, wine imports surged some 80% in the first year. According to the Commerce and Economic Development Bureau, about 850 new wine-related companies were set up in Hong Kong in 2008 and 2009, bringing the total to 3,550 and gained HK\$5.5 billion worth of wine-related business receipts in 2009. In 2012 and 2013, imports of wine amounted to HK\$8.1 billion and HK\$8 billion respectively.

Hong Kong is the only place in the world that has entered into an agreement with the Mainland Chinese Government, allowing wine imports to go into Mainland China under CEPA and enhanced customs facilitation measures. Hong Kong, being a duty-free port with good air connectivity and storage facilities, is regarded by Asian investors as the most cost-effective and convenient distribution hub to store their investment-grade wines for delivery to their markets on-demand. Mainland China and Macau, taking up some 84% of the total in 2012, are the major wine exporting destinations of Hong Kong.

Hong Kong wine auctions, mainly organized by Christie's, Sotheby's and Bonhams, usually outperform those in London and New York. Hong Kong has kept its title as the largest wine auction centre in the world for three consecutive years since 2010, with the total auction sales amounting to US\$115 million in 2013, according to Wine Spectator.

Due to the growing demand for wine in Asia and the deregulation of wine imports, wine business has boomed in Hong Kong. Besides new entries, increasingly, international wine companies and their specialists have moved to Hong Kong.

#### EXCHANGE CONTROLS

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

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 to 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.

## NEW COMPANIES ORDINANCE

Hong Kong's new Companies Ordinance (Chapter 622) ("new CO (Cap. 622)") was passed on 12 July 2012 and effective from 3 March 2014. The comprehensive re-write of the Companies Ordinance was started from mid-2006 and it allows Hong Kong to leverage the developments of company law in other comparable jurisdictions and further enhance its competitiveness and attractiveness as a major international business and financial centre.

The new CO (Cap. 622) aims to achieve four main objectives:

- enhance corporate governance;
- ensure better regulations;
- facilitate business and
- modernize the law.



## 3 – FOREIGN INVESTMENT

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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 HK\$2,450. By the Revenue (Reduction of Business Registration Fees) Order 2013, the fees payable in respect of business registration certificates and branch registration certificate that commence on or after 1 April 2013 but before 1 April 2014 reduced by a sum of \$2,000 and \$73 respectively.

### 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 16 of the new CO (Cap. 622) within 1 month after the establishment of the 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
- 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
- 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
- A certified copy of the charter, statutes or memorandum (including articles, if any) or any other instruments defining the 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

- 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 NNC1 (for company limited by shares), Notice to Business Registration office (IRB R1) and its articles of association to, the Companies Registry. The articles states the company's name, the Company's objects, the maximum number of shares that the Company may issue and members' liability. The articles also 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 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 who is a natural person 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.

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.

## 4 – SETTING UP A BUSINESS

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### 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.

## 5 – LABOUR

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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 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 June to August 2014 at approximately remained low 3.3%.

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 was HK\$28 per hour. With effect from 1 May 2013, the Statutory Minimum Wage rate was increased to HK\$30 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.

The ceiling of relevant income was increased from HK\$25,000 per month to HK\$30,000 per month from 1 June 2014. The minimum level of relevant income was also amended from the original level of HK\$6,500 to HK\$7,100 from 1 November 2013. For the contribution periods (wage periods in general) starting on or after the effective date, employees with a monthly relevant income less than HK\$7,100 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\$7,100 monthly or HK\$85,200 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.

## 6 – TAXATION

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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 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;
- 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 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.

- 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
  - 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.

The personal allowances and deductions for the 2013/14 year of assessment will be as follow:

Allowances and Deduction	2013/14 HK\$	2012/13 HK\$
Personal allowances:		
Single	120,000	120,000
Married	240,000	240,000
Single parent	120,000	120,000
Child		
1st to 9th child		
- year of birth	140,000	126,000
- other years	70,000	63,000
Dependent parent/grandparent		
Aged 60 or above		
- not residing with taxpayer		
- residing with taxpayer		
Aged 55 to 59		
- not residing with taxpayer	19,000	19,000
- residing with taxpayer	38,000	38,000
Disabled dependent	66,000	66,000
Dependent brother/sister	33,000	33,000

Allowances and Deduction	2013/14 HK\$	2012/13 HK\$
Deductions:		
- Self education	80,000	60,000
- Home loan interest	100,000	100,000
	(15 years of assessment)	(15 years of assessment)
- Approved charitable donations	35% of assessable income/profits	35% of assessable income/profits
- Elderly residential care expenses	76,000	76,000
- Contributions to recognised retirement schemes	15,000	14,500

### 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 net 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.

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.

### 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
- 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.

Nature of Document	Rate
Contract Note for sale or purchase of any Hong Kong stock	0.1% of the amount of the consideration or of its value on every sold note and every bought note
Transfer operating as a voluntary disposition inter vivos	\$5 + 0.2% of the value of the stock
Transfer of any other kind	\$5

#### AD VALOREM STAMP DUTY (“AVD”)

- 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:-

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%



- On 22 February 2013, the Financial Secretary announced that the Government would amend the Stamp Duty Ordinance to double the Stamp Duty rates and to advance the charging of Stamp Duty on non-residential property transactions from the conveyance on sale to the agreement for sale. Any residential property (except that acquired by a Hong Kong permanent resident who does not own any other residential property in Hong Kong at the time of acquisition) and non-residential property acquired on or after 23 February 2013, either by an individual or a company, will be subject to the new rates of Stamp Duty, upon the enactment of the relevant legislation. The normal stamp duty rates will still apply to residential property acquired by a Hong Kong permanent resident who does not own any other residential property in Hong Kong at the time of acquisition.

Amount or value of the consideration		Rate
Exceeds	Does not exceed	
	HK\$2,000,000	1.5%
HK\$2,000,000	HK\$2,176,470	\$30,000+20% of excess over \$2,000,000
HK\$2,176,470	HK\$3,000,000	3%
HK\$3,000,000	HK\$3,290,320	\$90,000 + 20% of excess over \$3,000,000
HK\$3,290,320	HK\$4,000,000	4.5%
HK\$4,000,000	HK\$4,428,580	\$180,000 +20% of excess over \$4,000,000
HK\$4,428,580	HK\$6,000,000	6%
HK\$6,000,000	HK\$6,720,000	\$360,000 +20% of excess over \$6,000,000
HK\$6,720,000	HK\$20,000,000	7.5%
HK\$20,000,000	HK\$21,739,120	\$1,500,000 + 20% of excess over \$20,000,000
HK\$21,739,120		8.5%

#### SPECIAL STAMP DUTY (“SSD”)

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% (increased to 20% on 27 October 2012) if the property has been held for six months or less;
  - 10% (increased to 15% on 27 October 2012) if the property has been held for more than six months but for 12 months or less;
  - 5% (increased to 10% on 27 October 2012) if the property has been held for more than 12 months but for 24 (Increased to 36 months on 27 October 2012) months or less.

#### BUYER'S STAMP DUTY ("BSD")

Upon enactment of the legislation, any residential property acquired by any person (including a company incorporated) from 27 October 2012, except a Hong Kong permanent resident, will be subject to the BSD. BSD is to be charged at a flat rate of 15% on the stated consideration or the market value of the property (whichever is higher), on top of the existing stamp duty and SSD, if applicable.

#### 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 2013-2014, 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%.

## 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.

## 7 – ACCOUNTING & REPORTING

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### 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 the financial statements that are audited.

### 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 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.

## 8 – UHY REPRESENTATION IN HONG KONG

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# TAI KONG CPA LIMITED HONG KONG

## CONTACT DETAILS

Tai Kong CPA Limited  
21/F Chinachem Tower  
34-37 Connaught Road Central  
Central District  
Hong Kong  
Hong Kong  
Tel: +852 2892 2800  
Fax: +852 2834 8777  
www.tkcpa.com.hk

Year established: 1984  
PCAOB registered?: Yes  
Number of partners: 2  
Total staff: 26

## CONTACTS

Liaison contact: Robert Kong  
Position: Managing Partner  
Email: robertkong@tkcpa.com.hk

## ABOUT US

Tai Kong has offices in both Hong Kong and Macau to help clients manage their businesses and comply with local laws and regulations.

## BRIEF DESCRIPTION OF FIRM

We have sound and extensive knowledge and experience in doing business in both Hong Kong and mainland China. We have guided many businesses from formation to success, including listing on the Hong Kong Stock Exchange. We are confident that we are well equipped to meet the requirements of our clients in Hong Kong, mainland China or from other countries seeking to benefit from the recent accession of mainland China to the World Trade Organisation.

We believe in personal commitment and make sure that every client gets individual care and attention. We recognise the importance in developing and maintaining trusted relationships with our clients and in making sure that our services are provided with integrity.

## SERVICE AREAS

Audit, accountancy and payroll outsourcing  
Company secretarial services  
Corporate finance  
Corporate restructuring and recovery  
Support services, training and recruitment  
Tax services  
Trusts and private client services

## SPECIALIST SERVICE AREAS

Due Diligence on M&A  
Payroll outsourcing

## PRINCIPAL OPERATING SECTORS

Real Estate and Rental and Leasing  
Trading Companies



The network  
for doing  
business



#### **LANGUAGES**

Chinese (Cantonese and Mandarin), English.

#### **CURRENT PRINCIPAL CLIENTS**

(Partial list of clients permitting public disclosure. Confidentiality precludes disclosure of all clients in this document.)

Bank of China Group Investment Ltd

China Agricultural Finance Co Ltd

Lisse Group (Int'l) Co Ltd

Wei-Da International Shoes Co Ltd

Pata Industrial Co Ltd

Marunix Hong Kong Ltd

Dah Mei Label Ltd

Build-Up Group Ltd

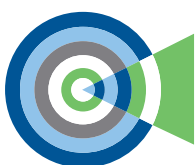
#### **OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST**

Australia, Canada, Channel Islands, India, Japan, Korea, Kuwait, Malaysia, Mexico, Netherlands, Philippines, Singapore, Taiwan, UK, US, Vietnam.

#### **BRIEF HISTORY OF FIRM**

Tai Kong CPA Limited has been incorporated to carry on the business of Tai, Kong & Co., Certified Public Accountants, which was founded in 1984 when Mr Tai Hay Yuen and Mr Robert T W Kong merged their practices.

The firm joined UHY in 1989.







# UHY VOCATION HK CPA LIMITED HONG KONG



## CONTACT DETAILS

UHY Vocation HK CPA Limited  
3/F Malaysia Building  
50 Gloucester Road  
Wan Chai District  
Hong Kong  
Hong Kong  
Tel: +852 2332 0661  
Fax: +852 2332 0304  
www.uhy-hk.com

Year established: 1983  
PCAOB registered?: Yes  
Number of partners: 3  
Total staff: 60

## CONTACTS

Liaison contact: Cecilia Ng  
Position: Audit Manager  
Email: ceciliang@uhy-hk.com

Liaison contact: Lora Chan  
Position: Director  
Email: lora@uhy-hk.com

## BRIEF DESCRIPTION OF FIRM

UHY Vocation HK CPA Limited is a medium-sized firm providing a wide range of services for international clientele in Hong Kong and with significant access to major cities throughout mainland China. The firm also assists Chinese entities seeking to develop overseas business interests. The firm provides a full range of professional services to a wide variety of clients, both corporations and individuals, involved in different types of industries.

## SERVICE AREAS

Our Professional Services

### AUDIT & IPO

Statutory audit and business investigations  
Financial due diligence  
Reporting accountants for IPO cases  
Internal audit

### TAX

Tax compliance and tax planning  
Tax audit and investigations  
Pre-listing corporate restructuring  
Offshore tax structuring  
Pre-immigration tax planning

### COMPANY SECRETARIAL SERVICES

Formation of Hong Kong and offshore companies with on-going secretarial services  
Provision of nominee directors, shareholders and Registered offices

### BUSINESS AND TRADE RELATED SERVICES

Book-keeping and accounting  
Compliance audit on products royalty  
International trade mark registration  
Human resources management and recruitment



The network  
for doing  
business



Public relations and corporate identity consultancy

#### IMMIGRATION TO AUSTRALIA

Immigration planning and advisory  
Immigration audit and report

#### CORPORATE RESTRUCTURING AND LIQUIDATION

Corporate recovery and advisory  
Liquidation / Receivership  
Litigation support

#### WEALTH PROTECTION AND ESTATE PLANNING

Preservation of family wealth  
Estate duty planning  
Advice on management of personal assets

#### SINO-BRIDGE CONSULTING

Assistance in setting up business in and outside of China  
Establishment of internal control systems for business in China

#### IT CONSULTANCY AND SUPPORT

Computer system integration, maintenance and support  
Accounting system and software consultancy  
Web-site and e-commerce design

#### SPECIALIST SERVICE AREAS

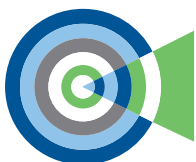
Internal control  
Due diligence  
Corporate and Personal Tax advice

#### PRINCIPAL OPERATING SECTORS

Manufacturing  
Trading  
Property  
Schools and NGO  
Law Firms  
Logistics  
Cargo forwarding  
Hotels and restaurants  
Insurance companies: agents and brokers

#### LANGUAGES

Chinese (Cantonese and Mandarin),  
English  
Thai





## CURRENT PRINCIPAL CLIENTS

### USA MARKET(Past & Present Clients)

#### a) NASDAQ –

CHINA GERUI ADVANCED MATERIALS GROUP LIMITED NASDAQ:CHOP  
PINGTAN MARINE ENTERPRISE LIMITED NASDAQ:PME  
LIZHAN ENVIRONMENTAL CORPORATION NASDAQ:LZEN

#### b) OTCBB –

CHINA CABLECOM HOLDINGS LTD. OTCBB:CABL  
CHINA NETWORKS INTERNATIONAL HOLDINGS LTD. OTCBB:CHNWF  
CHINA TOPREACH INC. OTCBB:CGSXF  
CNC DEVELOPMENT LIMITED OTCBB:CDLVF  
GALAXY STRATEGY & COMMUNICATIONS INC. OTCBB:CLPFF  
HUIHENG MEDICAL INC. OTC:HHGM  
STUDIO BRANDS INC. OTC:STBD  
TODA INTERNATIONAL HOLDINGS LIMITED OTC:TODAF  
TRESOR CORPORATION OTC:TRES

### CANADA TSX MARKET (Joint Audit) HT CAPITAL INC

### List of Hong Kong Listed Clients (Past & Present) Main Board

CHINA NATIONAL BUILDING MATERIAL CO. LTD.  
(Properties & Construction) 3323

CHINA SHIPPING DEVELOPMENT CO. LTD.  
(Oil and Cargoes Shipment) 1138

FIRST TRACTOR CO. LTD.  
(Production and Sale of Agricultural Tractors) 38

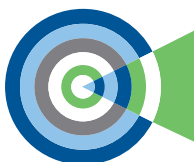
HUNAN NONFERROUS METALS CORP. LTD.  
(Production of Nonferrous Metals) 2626

JINGWEI TEXTILE MACHINERY CO. LTD.  
(Industrial Goods) 350

NANJING PANDA ELECTRONICS CO. LTD.  
(Information Technology) 553

STYLAND HOLDINGS LTD.  
(Investment holdings, brokerage, financing) 211

### GEM Board





VENTUREPHARM LABORATORIES LTD.  
(Research, Development and Commercialisation of drug products) 8225

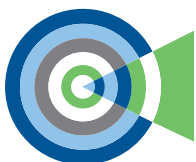
UK AIM MARKET (Past & Present Client)  
JETION HOLDINGS LTD.

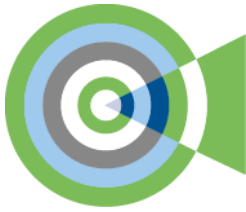
**OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST**

Australia  
China  
Malaysia  
Singapore  
UK  
US

**BRIEF HISTORY OF FIRM**

The firm was established in 1983. In order to expand our exposure in China, the firm joined UHY in 2005, re-branding to add the UHY initials to the firm's name at the same time. There followed a four-year affiliation with Zhong Tian Hua Zheng CPA Ltd., before this firm became involved in a merger and was dissolved. In January 2008 the firm affiliated with Vocation International CPA Co. Ltd, changing its name to UHY Vocation HK CPA Limited to reflect the new relationship.





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## LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online at [www.uhy.com](http://www.uhy.com) to find contact details for all of our offices, or email us at [info@uhy.com](mailto:info@uhy.com) for further information.

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