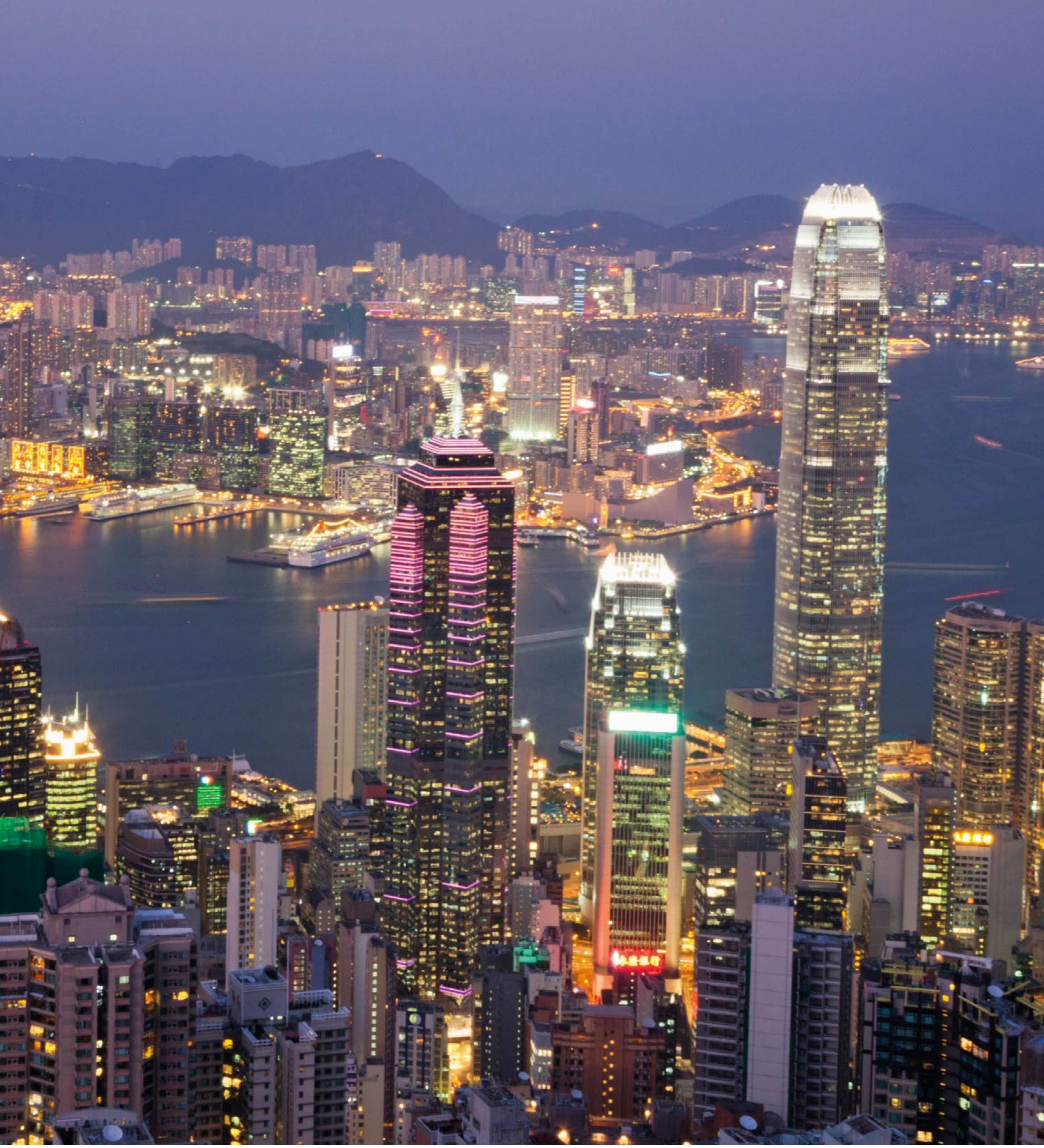

Doing business in Hong Kong
2016

In association with:

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Contents

Introduction

This guide to doing business in Hong Kong will provide foreign investors with an insight into the key aspects of investing and undertaking business in Hong Kong Special Administrative Region (HKSAR). After being occupied by the UK in 1841, Hong Kong remained a British protectorate until it was officially ceded back to the People's Republic of China in 1997. Its unique combination of cultures and close ties with the UK and other western economies has made Hong Kong a thriving and dynamic centre for trade and commerce in Asia.

Hong Kong's free market economy has been consistently rated as "the world's freest economy" (Rated by the Wall Street Journal, Cato institute and the Fraser institute). It has a strong services sector which provides over 90 per cent of its GDP and a long history of acting as a global business hub. It benefits from a close proximity to mainland China and therefore acts as an ideal base for foreign investors wishing to enter the Chinese market, one of the largest and fastest growing economies in the world.

Hong Kong has a welcoming attitude to Foreign Direct Investment (FDI), and in 2014, surpassed the United States in global FDI to become second in global FDI flows for the first time. The government encourages foreign activity and does not take steps to protect local business.

Hong Kong can offer a number of competitive advantages which make it very attractive to investors. These include:

- Strategic location – half of the world's population is within a five-hour flight radius
- Government policy – the government actively supports market driven growth
- Welcoming attitude to foreign investment
- Prevalence of English language for business
- Simple tax system with comparatively low tax rates
- Free port with minimal restrictions
- Attractive immigration policy that welcomes professionals
- Minimum government intervention and regulation in the marketplace

Hong Kong has generally seen consistent growth since the financial crisis in 2008, during which Hong Kong suffered (at the worst point) negative growth of -2.46 per cent. Hong Kong's economy expanded by 2.5 per cent year-on-year in real terms in the first three quarters of 2015, same as the rate for the full year of 2014. For 2015 as a whole, the economy is expected to grow by 2.4 per cent. Nevertheless, growth forecasts for 2016 have been mixed, amid political tensions and weak demand from mainland China.

While this guide makes reference to some of the most common issues investors might face, it must be noted that certain industries, such as the financial services sector, are subject to special regulations and therefore companies wishing to invest in this area should seek legal advice.

The information in this publication is current at December 2015.

Profile

Area	1,104 sq. km
Population	7,298,600
Language	Cantonese, English
Currency	Hong Kong dollar (HKD)
International dialling code	+ 852
National Holidays 2016	Every Sunday 1 January – New Year's Day 8 February – Lunar New Year's Day 9 February – Second Day of Lunar New Year 10 February – Third Day of Lunar New Year 25 March – Good Friday 26 March – The day following Good Friday 28 March – Easter Monday 4 April – Ching Ming Festival 2 May – The day following the Labour Day 14 May – The Birthday of the Buddha 9 June – Tuen Ng Festival 1 July – Hong Kong Special Administrative Region Establishment Day 16 September – The day following Chinese Mid-Autumn Festival 1 October – National Day 10 October – The day following the Chung Yeung Festival 26 December – The first weekday after Christmas Day 27 December – The second weekday after Christmas Day
Business and Banking hours	09:00 to 17:00
Stock exchanges	Hong Kong Stock Exchange (HKEx)
Political structure	Special Administrative region of China with a system of governance led by the Chief Executive and an Executive Council
Doing Business rank 2016	5

Ease of Doing Business

Topics	2016 rank	2015 rank	Change in rank
Starting a business	4	8	4
Licenses and Permits	7	7	No change
Getting Electricity	9	10	1
Registering property	59	59	No change
Financing	19	24	5
Protecting Investors	1	1	No change
Paying Taxes	4	4	No change
Trading Across Borders	47	46	-1
Enforcing Contracts	22	22	No change
Resolving Insolvency	26	24	-2

Source: World Bank Group (Doing Business)

Legal overview

Political and legal system

Hong Kong is a Special Administrative Region of the People's Republic of China (PRC), following the Chinese resumption of its sovereignty from the British in 1997. Hong Kong enjoys a high degree of political autonomy. The HKSAR government manages all aspects of the administration of HKSAR, including international trade relationships, except foreign affairs and defence which fall within the jurisdiction of the central government of the PRC.

The Chief Executive is the political head of the HKSAR. He is elected by an electoral college of 1,200 members representing four major sectors in the community, pursuant to the Basic Law, the mini constitution of Hong Kong. He is supported by a number of central government appointed ministers and a 160,000-strong civil servants. The HKSAR government is executive-led. Many of its policies have to be endorsed by the Legislative Council. The Legislative Council has 70 members who are elected by direct election and specific functional constituencies. The relationship between the government and the Legislative Council is governed by the Basic Law.

Hong Kong has its own judiciary, independent of the judicial system in Mainland China. Its final adjudicating organ is the Court of Final Appeal which is manned under the Chief Justice with a panel of permanent justices (PJ) and non-permanent justices (NPJ). The NPJ are prominent jurists drawn from the retired senior judges of Hong Kong and existing/retired judges from other common law jurisdictions, notably the UK and Australia. The laws in force in Hong Kong include the Basic Law, the national laws applicable to Hong Kong as stated in the Basic Law, the common law (in force before 1 July 1997) and the laws enacted by the legislature of Hong Kong.

Commercial disputes can also be resolved by arbitration. Hong Kong has its own home-grown arbitration body, the Hong Kong International Arbitration Centre which has been designated the appointing body under the Arbitration Ordinance to appoint arbitrators and to determine the number of arbitrators where the parties to a dispute are unable to agree.

Data protection

Data protection in Hong Kong is managed by the Office of Privacy Commissioner for Personal data (PCPD). The PCPD is an independent statutory body set up in 1996 to enforce the Personal Data (Privacy) Ordinance (Cap. 486) (PDO) enacted in that year. The main legislation on data protection is the Personal Data (Privacy) Ordinance (Cap. 486) (Ordinance) and the Codes of Practice, Guidelines and Guidance Notes issued by PCPD.

The PDO has six data protection principles, which are summarised as follows:

- Personal data may only be collected for purposes directly applicable to the user and the user must be informed
- Data must be kept accurately and deleted when it is no longer useful
- Data can only be used for the purpose stated on collection
- Data must be protected against interference and theft
- Certain specified policies and practices must be adhered to when handling consumer data
- Individuals have the right to access and correct personal data held by companies

The PDO applies to all legal entities, but exemptions do apply. Personal data is exempt if it:

- Is held by an individual for recreational purposes
- Is held solely for the purposes of journalism by a news organisation
- Is held for the purposes of preventing crime
- Is held for the purposes of tax collection
- Relates to physical or mental health
- Is used for emergency situations
- Is held by the Hong Kong administration for defence or security purposes

If informed or tipped off of a breach, the PCPD may choose to conduct an investigation. If there is a breach of data regulations, typical resolutions involve compensation and a mandated change of practice for the defendant. If the ruling of the Commission is ignored, criminal sanctions may be imposed, which include a fine of up to HKD50,000 and imprisonment of up to two years. Breach of other areas of the Ordinance, such as the Direct Marketing requirements and selling data can result in fines up to HKD1 million and up to five years imprisonment.

Money laundering regulations

Hong Kong is a global business hub for the Asia Pacific region, and maintains a strict and effective anti-money laundering and counter-terrorist financing regime. Money laundering and terrorist financing are both illegal under the following legislation:

- The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (AMLO)
- The Drug Trafficking (Recovery of Proceeds) Ordinance (DTROP)
- The Organised and Serious Crimes Ordinance (OSCO)
- The United Nations (Anti-Terrorism Measures) Ordinance (UNATMO)

Banks in Hong Kong must follow a strict "Know Your Customer" (KYC) policy, which requires appropriate identification and other information before taking deposits.

The Financial Action Task Force (FATF) is an international intergovernmental organisation concerned with the prevention of terrorist financing. It issues the FATF recommendations on international Anti-Money Laundering (AML) requirements, which have substantial influence on the AMLO.

The AMLO requires the following of Financial Institutions (FIs):

- Customer due diligence

FIs must perform sufficient enquiry about customers and obtain identifying documentation such as certificates of incumbency.

- Continuous monitoring

FIs must monitor customer information and activities in order to detect unlawful activity, including risk-based ranking of customers.

- Suspicious transaction reports

FIs must file appropriate reports when money laundering is suspected or detected.

- Assessment of pre-existing customers

FIs are required to perform Customer Due Diligence on pre-existing customers, and inspect previous transactions for evidence of suspicious behaviour.

- Staff training

Staff must be trained regarding Securities and Futures Commission (SFC) AML guidelines and how to carry out their roles in accordance with AML guidelines.

The Government of Hong Kong has a Joint Financial Intelligence Unit, which monitors suspicious financial activities related to drug trafficking, money laundering and terrorist financing.

Competition law

The Competition Ordinance (Ordinance) has been effective since 14 December 2015. The Ordinance prohibits two types of conduct:

- Anti-competitive agreements which distort or affect competition (specifically, undertakings should not fix prices, share markets, impose output restrictions or rig bids). Under this rule, companies are also prohibited from exchanging or disclosing competitively sensitive information to competitors
- Abuse of substantial degree of market power (which, under certain circumstances can take the form of rebates and discounts, below cost pricing, tying and bundling, and exclusive arrangements) without objective justifications

This brought Hong Kong legislation in line with most jurisdictions having a competition law regime. Both prohibitions cover all sectors and industries.

In addition, the "merger rule" prohibits mergers which have or are likely to have the effect of substantially lessening competition in Hong Kong. However, unlike in other jurisdictions, this rule only applies to mergers involving at least one telecommunications carrier license in Hong Kong.

The Ordinance is enforced by the newly established Hong Kong Competition Commission (HKCC), with competition law cases being presented before the Competition Tribunal which is part of the High Court.

The HKCC has broad investigative powers and can conduct dawn raids (ie an unannounced inspection).

Intellectual Property Rights

In Hong Kong, protection is granted for most common forms of intellectual property, including patents, trademarks, designs, copyrights and plant varieties protection.

In Hong Kong, intellectual property is managed by the Intellectual Property Office.

Intellectual property protection can be obtained by submitting the relevant forms and paying the prescribed fees to the appropriate body, either in person or electronically. Trade mark forms are submitted to the Trade Mark Registry.

COPYRIGHT

Copyright protects original work from unsolicited use or copying, and can extend to: software, literature, music, artwork, film, visual media, layouts and typographical arrangements, recordings, broadcasts and online content. It is an automatic right, and therefore it is not necessary to apply for it, but the copyright symbol (©) is still used optionally to provide additional legal protection.

As at December 2015, Hong Kong's legislature is debating a bill to update the copyright laws in line with the 'internet age'.

Protection granted	Copyright is protected under the Copyright Ordinance, Cap 528 and grants the owner exclusive rights to use, copy and distribute the original work. Infringement of copyright can lead to either civil and/or criminal sanctions. As of 2003, the copyright law regarding software has been liberalised and significantly less protection is now afforded.
Infringements	Copyright applies to any medium, which means that copyright protected work cannot be reproduced in any other medium. Acts that infringe the copyright include the copying of the whole or a substantial part of the work, issuing copies to the public, etc without the consent of the copyright owner. Authorising an infringement is in itself an infringement. Individual infringements usually result in civil sanctions, but large importation or sale of pirated material can lead to criminal conviction. Depending on the offence, criminal penalties can be up to four years' imprisonment and a fine of HKD50,000 per infringing article or a fine of HKD500,000 and imprisonment for eight years.
Duration	The general rule is that copyright lasts 50 years after the creator of the work dies. However, there are minor variations to this depending on the type of work.

PATENTS

A patent is a property right relating to an invention or process, usually applicable to an industrial environment, that gives the owner the legal right to prevent others from copying, manufacturing or selling the invention. Patents are registered with the Patents Registry in the Intellectual Property Department.

The limited duration of a patent means that at its expiry, the content of the patent becomes public domain. Pure discoveries and scientific or mathematical formulae cannot be patented. Patents are now generally accepted to behave as property and can be bought, sold or mortgaged.

The Patents (Amendment) Bill 2015 was published in October 2015 which introduces an Original Grant Patent System (OGP). The aim would be to commence the OGP system in 2017 at the earliest.

Protection granted	A patent gives its owner the ability to take legal action to stop others from copying, manufacturing, selling and importing the invention without the inventor's permission. It also allows the owner to sell the invention and all the associated IPR, license the invention to someone else while retaining the IP rights, discuss the invention with others and set up a business based around the invention. Patents are protected under the Patents Ordinance, Cap 514.
Infringement	Infringing a patent means manufacturing, using, selling or importing patented products or processes without the owner's permission. It is not necessary to know that an invention is patented to infringe the patent.
Duration	Standard – Maximum of 20 years, subject to annual renewal after three years. Short term – Maximum of eight years, renewable after four years.

TRADE MARKS

A trade mark is a sign that serves to distinguish and identify goods and services produced by an individual or company from any other provider. A trade mark can be a word, personal name, design, letter, phrase, symbol, distinctive colour, or combination thereof. Trade marks need not be registered, but owning a trade mark provides important benefits and further legal protection. Trademarks are usually denoted by the TM, SM or ® symbols. A sign must be capable of being represented graphically to qualify for trade mark.

In November 2014, the Hong Kong Government issued a consultation paper on the application of the Madrid Protocol to Hong Kong. While the consultation process is underway, implementation is not likely for at least three to four years.

Protection granted	Protection is granted under the Trade Marks Ordinance, Cap 559 and the Trade Marks Rules, Cap 559A. Once granted, a trade mark gives the owner exclusive rights to its use and publication.
Infringement	Some examples of infringement of a trade mark are: • Using someone else's registered trade mark or a confusingly similar mark, for identical or similar goods and services. An individual will also be liable for 'passing off', if they make deceptive use of someone else's trade mark, business or company name to mislead consumers and damage the business goodwill and reputation
Duration	10 years (can be renewed indefinitely).

Conducting business in Hong Kong

Business entities

The Hong Kong Special Administrative Region has a business-oriented regulatory structure and the government actively promotes free enterprise and foreign investment. The process of starting a business is transparent and simple, with minimal registration documents and fees. The Companies Ordinance defines the registration requirements as well as the operating regulations for companies.

All businesses must hold a Business Registration Certificate. The fees for initial registration are levied at HKD2,000 for a one-year certificate and HKD5,200 for a three-year certificate. In addition to the business registration fee, businesses are also required to pay the levy for the Protection of Wages on Insolvency Fund at HKD250 for a one-year certificate and HKD750 for a three-year certificate. Companies must continue to renew such certificates upon expiration.

Hong Kong places no restrictions on the residency of company directors, but as of 2015, the Companies Ordinance stipulates that at least one director must be a natural person, as opposed to a corporate entity. Details of the first director(s) and first secretary must also be specified registered at the office wherein the incorporation form in an application for incorporation the company is incorporated.

Names of companies must be registered with the Companies Registry, and cannot be identical to any existing registered names.

The forms under which a business can operate in Hong Kong are as follows:

- Corporation
- Branch or representative office
- Joint venture
- Partnership
- Sole proprietorship

Of these, private corporations and branch offices are the most popular with investors. It is also possible to purchase pre-registered "off-the-shelf" companies in order to speed up and simplify the commencement of trading.

Investors are advised to seek professional advice to establish the best choice.

Corporation

Formation

To form a corporation, the following documents must be submitted to the Companies Registry:

- A copy of the Articles of Association
- Statement of compliance with the Hong Kong Companies Ordinance
- Completed incorporation form
- The prescribed fee (company registration fee, business registration fee and the levy for the Protection of Wages on Insolvency fund)

Capital requirement

The Companies Ordinance does not require a minimum share capital.

As of 2015, a no-par system is in operation when issuing shares, which stipulates that shares have no nominal face value when issued.

Different classes of shares may be issued, as detailed in the Articles of Association.

Constitution

Private limited companies must have at least one director, which can be of any nationality or residence.

Filing requirements

Corporations are required to file standard ad hoc filings and annual returns to the Companies Registry. Annual returns must detail the authorised and issued share capital, the directors, the shareholders and the registered charges of the company.

Branch and representative office

A branch office or representative office can be established by registering with the Inland Revenue Department (IRD) to receive a Business Registration Certificate. For a branch office, registration must also be made with the Companies Registry as a non-Hong Kong company. Branches and representative offices are considered part of their parent company and do not constitute a separate legal entity.

A representative office is different from a branch in that it is prohibited from carrying out any income-generating business in Hong Kong, although a Business Registration Certificate is required. Representative offices can only perform co-ordination and liaison activities on behalf of the parent company.

Sole proprietorship

A sole proprietorship is an unincorporated business wholly owned by a single individual, and there is no legal distinction made between the individual and the business. One therefore cannot be a sole proprietor and also treat the sole proprietorship as a corporation. There are no capital requirements, and as the sole proprietorship is the same legal entity as the owner, the only procedure required to start one is to obtain a Business Registration Certificate from the IRD.

Partnership

General partnership

A general partnership does not constitute a separate legal entity

As of 2015, a no-par system is in operation when issuing shares.

to its founders, and all partners are jointly liable for all debts and obligations of the partnership. Specific partnership agreements can be drawn up to codify the rights and obligations of individual partners, but when these are unspecified, partnerships are governed by the Partnership Ordinance.

To set up a general partnership, only a Business Registration Certificate has to be obtained from the Inland Revenue Department.

Limited partnership

A limited partnership has at least one general partner, who is liable for all debts and obligations of the partnership and at least one limited partner, whose liability only extends to the amount of capital contributed. Limited partnerships must obtain a Business Registration Certificate. This form of partnership is far less common.

Joint venture

A joint venture can operate as either an incorporated company (corporation) or as a partnership, and will follow the prescribed rules for those business vehicles.

Tax system

Hong Kong is a Special Administrative Region of the People's Republic of China and exists as an autonomous territory that operates based on the Basic Law. It therefore has a degree of economic autonomy and operates its own tax system. Hong Kong operates a relatively simple and low tax system that is attractive to investors.

The IRD is the authority for tax in Hong Kong, and tax law is codified in the Inland Revenue Ordinance (IRO). The tax year generally runs from 1 April to 31 March.

Profits Tax

Persons (including corporations and partnerships) that carry on a trade, profession or business in Hong Kong are subject to Profits Tax on income generated in Hong Kong (excluding profits arising from sale of capital assets). The source of profits is generally determined territorially, with income judged to be earned in Hong Kong taxed accordingly. Tax is applied identically for both public and private companies. All profits derived from operations within Hong Kong are considered taxable, including property sold as part of any profit making scheme. Certain offshore activities and sales are exempted from Profits Tax.

Special formulas are used to calculate taxable profits for airlines, insurance and shipping businesses.

Corporations are taxed at a rate of 16.5 per cent and unincorporated companies are taxed at 15 per cent. Dividend income from either local companies or foreign companies is not subject to Profits Tax. Capital receipts are not subject to Profits Tax.

Losses can be carried forward, to an indefinite period, and cannot be carried back.

Partnerships are treated as taxable entities and profits distributed to partners are not taxable.

Deductions

Expenses are generally deductible, as they are used to generate profit that is then taxed. Examples of deductible items include:

- Rent (for buildings or land)
- Repairs
- Intellectual property fees
- Certain contributions to employee retirement schemes
- Approved charitable donations

Withholding tax

Hong Kong does not levy any taxes on dividends, interest or

Expenses are generally deductible, as they are used to generate profit that is then taxed.

payroll, but does levy withholding tax for payments made to any non-residents for certain royalties for the use of or right to use of intellectual property.

Transfer pricing

Transfer pricing activity is generally dealt together with anti-avoidance provisions by the tax authority, eg with specific rules regarding transactions between non-Hong Kong residents and resident companies. In general, transfer pricing guidelines follow those issued by the Organisation for Economic Co-operation and Development (OECD), stipulating the conditions under which non arms-length transactions are challenged. Taxpayers may apply for advance pricing agreements when operating across borders with companies resident in jurisdictions with which Hong Kong has a tax treaty.

Tax treaties

Hong Kong is part of an extensive network of Double Taxation Relief and Exchange of Information Arrangements, covering 58 countries / territories currently.

These include; Austria, Bangladesh, Belgium, Brunei, Canada, China, Croatia, Czech Republic, Denmark, Estonia, Ethiopia, Faroes, Fiji, Finland, France, Germany, Greenland, Guernsey, Hungary, Iceland, Indonesia, Ireland, Israel, Italy, Japan, Jersey, Jordan, Kenya, South Korea, Kuwait, Laos, Lichtenstein, Luxembourg, Macau, Malaysia, Maldives, Malta, Mauritius, Mexico, Netherlands, New Zealand, Portugal, Qatar, Romania, Russia, Seychelles, Singapore, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Thailand, United Arab Emirates, United Kingdom, USA and Vietnam.

Other taxes

Property Tax is charged at a standard rate of 15 per cent of the net assessable value (ie rental income less allowable deductions) of the property located in Hong Kong. Companies that include rental income from property in their business income are exempted from Property Tax.

Personal Income Tax

Individuals are subject to Salaries Tax in respect of their income arising in or derived from Hong Kong from employment, office or pensions. Individuals who perform employment duties during visits to Hong Kong for no more than 60 days in the tax year are exempt from Salaries Tax.

Employment income derived in Hong Kong is subject to Salaries Tax for residents, with the exception of deductible expenses, charitable donations, and personal allowances.

To determine whether employment income is derived in Hong Kong, it is important to distinguish whether the relevant employment is a Hong Kong employment or a non-Hong Kong employment.

In case of a Hong Kong employment, all the employment income will be chargeable to Salaries Tax unless the employee performs his employment duties during visits to Hong Kong for periods not exceeding a total of 60 days in the tax year. In case of a non-Hong Kong employment, generally an apportionment of employment income by reference to the time-in/time-out is made in order to compute the amount of income to be chargeable to Salaries Tax.

Generally, there are three factors to determine whether an employment is a Hong Kong employment or a non-Hong Kong employment:

- Whether the employment contract was negotiated, concluded and enforceable in Hong Kong
- Whether the employer is a Hong Kong resident
- Whether the employee received the remuneration while in Hong Kong

For employees whose monthly income is greater than HKD7,100, the employer is required to deduct five per cent to contribute to the employee's Mandatory Provident Fund (MPF), alongside a matching five per cent contribution from the employer. The maximum deduction is HKD1,500 per month, and money from the scheme cannot be accessed until the age of 65, early retirement or permanent departure from Hong Kong etc.

Tax rates

Salaries Tax rates, subject to certain deductions and personal allowances, are as follows:

Wage Band (HKD)	Tax Rate (%)
0-40,000	2
40,000-80,000	7
80,000-120,000	12
120,000+	17

Income (salaries) tax is assessed on a yearly basis and is usually paid in two instalments.

An employee's Salaries Tax liability is however limited to 15 per cent of his taxable income, as the standard rates of tax, after allowable deductions.

Property owners are taxed on income from property rental at a standard rate of 15 per cent on net assessable value.

Other taxes

Stamp Duty

Stamp Duty is applied to the transfer of stock, bearer instruments and property in Hong Kong. There are three types of applicable Stamp Duty: an Ad Valorem Duty (AVD), Buyer's Stamp Duty (BSD), and a Special Stamp Duty (SSD).

AVD is charged at the following rates for immovable property:

Value (HKD)	Rates
Up to 2,000,000	1.5%
2,000,000 - 2,176,470	HKD30,000 + 20% of excess over HKD2,000,000
2,176,470 - 3,000,000	3%
3,000,000 - 3,290,330	HKD90,000 + 20% of excess over HKD3,000,000
3,290,330 - 4,000,000	4.5%
4,000,000 - 4,428,580	HKD180,000 + 20% of excess over HKD4,000,000
4,428,580 - 6,000,000	6%
6,000,000 - 6,720,000	HKD360,000 + 20% of excess over HKD6,000,000
6,720,000 - 20,000,000	7.5%
20,000,000 - 21,739,130	HKD1,500,000 + 20% of excess over HKD20,000,000
21,739,130+	8.5%

These rates are consistent for all property, except in the case of residential property acquired by a Hong Kong permanent resident acting on his/her own behalf who does not own other Hong Kong residential property at the time of acquisition, where different rates apply.

Buyer's Stamp Duty (BSD)

Unless specifically exempted, any sale or transaction of residential property is subject to BSD. BSD is charged at 15 per cent on the stated price or the market value of the property, whichever is higher unless the buyer is a Hong Kong permanent resident acting on his/her own behalf.

Special Stamp Duty (SSD)

SSD is applied to any residential property that is bought and resold within 36 months. This duty depends on the holding time and is charged on top of the AVD as follows:

Holding Period	Charge (%)
Up to 6 months	20
6 - 12 months	15
12 - 36 months	10

This charge is on the stated consideration or the market value of the property, whichever is higher.

Property leasing

The lease of property is taxed based on the rent charged on a yearly basis.

The rates are as follows:

Term	Rate
Uncertain	0.25% of the yearly average rent
Up to 1 Year	0.25% of the total rent payable over the lease
1-3 years	0.5% of the yearly or average rent
3 years +	1% of the yearly or average rent
Key money, construction fee etc. mentioned in the case	4.25% of consideration, only if rent is payable under the lease
Duplicate or counterpart	HKD5 each

Stock transfer

Stamp duty is applied to the transfer of stock at a rate of 0.2 per cent of its value.

Labour

Hong Kong has a relatively open and deregulated labour market. Employment law is governed by the Employment Ordinance (EO) which provides a comprehensive range of employment conditions, protections and benefits. The Labour Department administers employment in Hong Kong and provides a free network for recruiting workers and finding jobs.

Employment contract

The Hong Kong Special Administrative Region recognises the English common law concept that employment is governed by a negotiable contract between the employer and employee. An important distinction is made in the EO between "continuous" and "non-continuous" employment. The majority of the specific protections and provisions in the EO are only afforded to contracts of "continuous employment". Contracts can be made orally or in writing, and the terms cannot contravene or restrict the stipulations of the EO.

The EO states that employees must be clearly informed of their wages, wage period, notice length, end of year payments and all other contractual factors before employment begins.

Unless stipulated otherwise, all contracts are assumed to be continuous, and renewable on a month-by-month basis. Employers are required to keep accurate records of the titles, wages and other details of their employees.

Minimum wage

The Minimum Wage Ordinance was established in 2011 and the current standard minimum wage in the Hong Kong Special Administrative Region is HKD32.50 per hour.

Some benefits received by employees are counted as wages while some are not:

Wages	Not Wages
• Remuneration • Allowances • Tips • Service Charges	• Medical care • Food, water, fuel • Commission • Pension contributions • Bonuses • Long service payments • Special expenses

Working time and leave

Hong Kong Special Administrative Region places no restrictions on working hours for employees over the age of 18. All employees are entitled to a certain amount of rest days, statutory holidays and paid annual leave.

Employees who have worked for between one and three years are entitled to seven days of annual leave, and an additional day is granted for each subsequent year worked, up to a maximum of 14 days.

Any employee under a continuous contract is entitled to one rest day in every seven. These rest days are appointed by the employer and can be scheduled on a regular or irregular basis. Once scheduled, employees cannot be forced to work on rest days without consent, except in the event of an emergency.

Employees under the age of 18 in industrial work can opt to work on any given day. Rest days do not have to be paid.

There are 17 public holidays each year, 12 of which are statutory holidays on which employees are entitled to a paid day off. Employees may be asked to work on statutory holidays, on the condition that an alternative paid day off is provided within 60 days. The extra five days of public holidays are enjoyed by most "white collar employees", which generally refer to government, bank and non-manual office employees.

Paid sickness leave can be accrued at a rate of two days per month up to a maximum of 120 days. Sickness pay of 80 per cent of normal salary will be paid to employees who require sick leave of more than four consecutive days.

Years of Service	Annual Leave Entitlement (Days)
1	7
2	7
3	8
4	9
5	10
6	11
7	12
8	13
9+	14

Eligible female employees under continuous employment are entitled to 10 weeks maternity leave. For those that have completed at least 40 weeks of work, maternity leave is paid at 80 per cent of daily average wages, and an additional four weeks of leave is available for illness associated with pregnancy.

Male employees are also entitled to three days' paid paternity leave to be taken consecutively or separately for each confinement of their spouse/partner if they fulfil other requirements as stipulated in the law.

Pensions

The Mandatory Provident Fund (MPF) system was launched in December 2000 to protect retirement benefits of the Hong Kong workforce. The MPF rules require every employer to contribute five per cent of an employee's relevant monthly income (capped at a maximum of HKD30,000 and hence HKD1,500 monthly contribution) into a registered MPF scheme. Employees with monthly incomes of HKD7,100 and above must make a matched contribution into the same scheme. The benefits derived from all such contributions are preserved until an employee reaches the statutory retirement age or permanently departs from Hong Kong.

Workers' compensation

The EO requires employers to maintain adequate insurance coverage for liabilities to pay compensation in the event of any work-related injuries or loss of life of their employees. Failure to do so may result in heavy fines for the employer or terms of imprisonment.

Healthcare and benefits

There is no statutory requirement to provide employees with healthcare benefits. Nevertheless, it is common practice for larger organisations in Hong Kong to provide health insurance for staff.

Probation

There is no statutory restriction on probation, but three months is common practice.

Dismissal

Under the common law in Hong Kong, either party in an employment contract can terminate the contract by giving the required period of notice.

Employees can be terminated without notice in the following circumstances:

- Wilful disobedience of lawful and reasonable orders
- Misconduct and failure to perform duties
- Fraud or dishonesty
- Neglect of duties

Similarly, an employee can terminate the contract of employment without notice in the following circumstances:

- Reasonable fear of harm or violence
- Ill treatment by the employer
- Any other ground under "constructive dismissal" in common law

Severance payment and long service payment

Severance payments and long service payments are available subject to the following conditions:

Entitlement	Severance payment	Long service payment
Qualifying period of employment	Minimum 24 month under a continuous contract	Minimum five years under continuous contract
Conditions	The employee is dismissed by reason of redundancy	The employee is dismissed but not due to misconduct or redundancy
	Employment contract of a fixed term expires without being renewed for reason of redundancy	Employment contract of a fixed term expires without being renewed
	The employee is laid off	The employee dies
		The employee resigns on grounds of ill health
		The employee is aged 65 or above and resigns on grounds of old age

An employee cannot be entitled to both severance and long service payments. Long service payments should be made within seven days of termination of the employment contract. Severance payments must be made within two months of notice.

Employers who fail to pay appropriate severance/long service payments can be prosecuted and receive fines of up to HKD350,000 and up to three years of imprisonment.

Employment protection

Employees are protected from unlawful or unreasonable dismissal and unreasonable changes to contract terms by the EO. In either circumstance, the Labour Department may issue an order of reinstatement/re-engagement or award the issue of termination payments.

The following ordinances prevent unfair dismissal on various grounds:

- The Sex Discrimination Ordinance
- The Disability Discrimination Ordinance
- The Family Status Discrimination Ordinance
- The Race Discrimination Ordinance

Employees can file complaints to the Equal Opportunities Commission for unfair treatment or to the Labour Department for breach of contract.

Employment of resident and non-resident employees
Immigration is controlled by the Immigration Department, who has implemented the General Employment Policy (GEP). The GEP restricts non-resident employment visas only to applicants with valuable or special skills.

All non-residents must obtain an employment visa through the Hong Kong Immigration Department or Chinese Consulate, which may require a local sponsor (usually the employer). The application process from submission to the granting of employment visa normally takes between four to six weeks.

Trade unions
The Employment Ordinance establishes the right for every employee to participate in a trade union, but union membership is very rare in Hong Kong and collective bargaining has no statutory recognition. Industrial relations are generally peaceful and there have been very few collective agreements.

Audit

The Inland Revenue Department only accepts financial statements prepared in accordance with the accounting standards, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) for tax submission purposes. All Hong Kong incorporated entities are required to prepare its statutory financial statements in accordance the accounting standards issued by the HKICPA, which include:

- Hong Kong Financial Reporting Standards (HKFRSs)
- HKFRS for Private Entities
- Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS) (for entities fulfilling the reporting exemption under the Companies Ordinance)

HKFRSs are not designed to apply to non-profit or public sector companies, only to profit making organisations.

Accounting standards
As of December 2015, HKFRSs consists of 15 Hong Kong Financial Reporting Standards, 28 Hong Kong Accounting Standards (HKASs) and 27 Interpretations, which are largely identical to International Financial Reporting Standards (IFRSs), with the exception of a few specific deviations. As such, Hong Kong aligns its capital markets with more than 100 countries that have also converged with IFRSs.

The Accounting Standards include basic accounting principles and methods for updating accounting books and preparing financial reports.

Accounting records
All corporations in the Hong Kong Special Administrative Region are required to keep accurate books to show and explain the corporation's transactions; to disclose with accuracy, at any time, the corporation's financial position and financial performance; and to enable the directors to ensure that the financial statements comply with Companies Ordinance. The standards and rules for audit are described in the Companies Ordinance and state that all companies must keep proper records regarding:

- Money received and expended
- Receipt and expenditure by the company
- All assets and liabilities

A complete set of financial statements comprises:

- A statement of financial position
- A statement of profit or loss and other comprehensive income
- A statement of changes in equity
- A cash flow statement
- Accounting policies and explanatory notes
- Comparative information in respect of the preceding period

Accounts must be kept at the registered office of the company or similar location and be open to inspection by the directors. Books of accounts must be preserved for at least seven years from the end of the financial year.

Filing and submission of statutory financial statements
All public companies and companies limited by guarantee incorporated in Hong Kong must file audited financial statements prepared in accordance with HKFRSs with the Companies Registry.

Audit requirements
All companies must have their complete set of financial statements audited every year by a Hong Kong Certified Public Accountant.

Foreign companies are required to file a copy of the company's annual accounts to the Companies Registry which can be accessed by the public, unless they are not required to do so in their country of origin. Foreign representative offices are not required to file any annual accounts.

Trade

Foreign Direct Investment
Hong Kong is a vibrant free market economy that thrives on international trade. It is one of the largest trading economies in the Asia Pacific region, and has become a large commercial and business centre as well as an important link with the Mainland of China. Hong Kong is the world's most service-based economy, with the service sectors accounting for approximately 90 per cent of GDP.

Hong Kong was a founding member of the World Trade Organisation (WTO), as well as an active participant in its activities, and continues to hold separate membership to the People's Republic China, under the name "Hong Kong, China"

Hong Kong is also a member of the following organisations:

- Asia-Pacific Economic Cooperation (APEC)
- Pacific Economic Cooperation Council (PECC)
- Asian Development Bank
- World Customs Organisation
- United Nations Economic and Social Commission for Asia and the Pacific - (associate member)
- Trade Committee of the Organisation for Economic Cooperation and Development (OECD) – (observer)

There are no barriers to trade in Hong Kong, including no tariffs on importation or exportation of goods. Import and export licensing is minimal, and only imposed when there is an obligation to trading partners.

Hong Kong is one of Asia's largest recipients of FDI, second only to the Mainland China. According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2015, FDI inflows to Hong Kong amounted to USD103 billion in 2014.

Government incentives
The primary incentives to trade in Hong Kong are the low tax rates and relaxed trade regulations. The corporate tax rate of 16.5 per cent and unincorporated business tax rate of 15 per cent make it both cheap and simple to operate from Hong Kong and highly attractive to investors.

Hong Kong Government takes an active interest in maintaining Hong Kong's competitive advantage. In 2011, Hong Kong was included for the first time in a five-year-plan prepared by the People's Republic of China, which includes a long-term strategy of expanding and securing Hong Kong's position as a financial services centre and trade hub.

Hong Kong's relationship with mainland China is one of the most significant factors influencing business in Hong Kong. In 2003, China and Hong Kong signed the Closer Economic Partnership Agreement (CEPA); the first ever free trade agreement between mainland China and Hong Kong. The agreement opened up trade between the mainland and Hong Kong, and confers other benefits such as mutual recognition of professional qualifications.

Hong Kong service providers therefore enjoy increased liberalisation when entering China's service sectors.

Hong Kong's immigration policy is designed to attract professionals and investors in order to maintain a high quality workforce.

Imports
Hong Kong has relatively few import regulations and only levies excise duties on four classes of goods: alcohol, tobacco, hydrocarbon oil and methyl alcohol.

Taxes are levied at the following rates:

Dutiable commodities	Duty rate
Liquor	
Liquor with alcoholic content below 30 per cent	0%
Liquor with alcoholic content above 30 per cent	100%
Wine	0%
Tobacco	
For each 1,000 cigarettes	HKD1,906
Cigars	HKD2,455/kg
Chinese prepared tobacco	HKD468/kg
All other manufactured tobacco not intended for cigarette manufacture	HKD2,309/kg
Hydrocarbons	
Aircraft spirit	HKD6.51/litre
Motor spirits (leaded petrol)	HKD6.82/litre
Motor spirits (unleaded petrol)	HKD6.06/litre
Light diesel oil (except for ultra-low sulphur diesel and Euro V diesel)	HKD2.89/litre
Ultra low sulphur diesel	HKD2.89/litre
Euro V diesel	HKD0/litre
Methyl alcohol	
Basic duty which increases if alcoholic strength exceeds 30 per cent	HKD840/ hectolitre

Finance

Hong Kong is a leading global financial centre, and has a large and robust network of financial institutions. A diverse array of financial products is available, catering for an international audience of investors. Regulations are minimal and transparent, and the government has adopted a minimal intervention policy to encourage free market activity. There is relatively low tax and few barriers to access financial markets.

The principal regulators of Hong Kong's finance industry are the Securities and Futures Commission (SFC), the Hong Kong Monetary Authority (HKMA), the Office of the Commissioner of Insurance (OCI) and the Mandatory Provident Schemes Authority (MPFA). They provide regulation and oversight for the banking, securities and futures, insurance and retirement scheme industries.

Offshore RMB Centre

Hong Kong has long acted as a trading bridge between Mainland China and the rest of the world, and this role now extends to money flows. In 2004, Hong Kong became the first place outside of China to conduct personal business using the renminbi (RMB), Mainland China's official currency. This gave rise to RMB banking business in Hong Kong.

In 2009, the banks in Hong Kong were allowed to conduct the settlement of cross-border merchandise trades in RMB and provide the relevant RMB products and services to their customers. In 2011, enterprises in Mainland China were allowed to conduct and settle overseas direct investment in RMB, and banks in Hong Kong can now provide RMB funds to facilitate such transactions. In the same year, the RMB Qualified Foreign Institutional Investors (RQFII) programme was expanded to allow further RMB investment in Hong Kong. Nowadays, Hong Kong is the world's largest offshore RMB business hub, with the world's largest offshore pool of RMB liquidity. In 2015, the scope of trade settlement in RMB was expanded to the cross-border service trades.

Capital markets

All capital market activities in Hong Kong are operated by Hong Kong Exchanges and Clearing Limited, which operates markets in stock, futures, derivatives and other financial products through subsidiary companies. The primary stock exchange is The Stock Exchange of Hong Kong (SEHK).

The Hong Kong stock market is the seventh largest in the world and the third largest in Asia, and as such has a high degree of liquidity. Funds raised through IPOs for 2015 amounted to USD33.8 billion, which was the world's highest, according to data from Dealogic.

As at 31 December 2015, the SEHK had 1,866 listed companies and a market capitalisation of HKD24,638.7 billion.

On 17 November 2014, the Shanghai-Hong Kong Stock Connect was launched. It enables mutual market access by investors in the two markets to trade designated equity securities listed in the other's market. This initiative will pave the way for opening up of China's capital account and help promote the internationalisation of RMB and development of the Hong Kong's capital market. Chinese investors used the entire RMB10.5 billion daily quota for the first time in April 2015.

Banking system

Hong Kong has a large and comprehensive banking system, supporting its role as one of the leading financial centres in the world. Around 70 of the world's 100 largest banks have a presence in Hong Kong.

Under the Banking Ordinance, there are three tiers of banking institutions in Hong Kong:

- Licensed banks
- Restricted license banks
- Deposit-taking companies

Licensed banks are commercial banks and are the only institutions that may operate current accounts and accept deposits.

Restricted license banks primarily engage in merchant banking and capital market activities. They may accept deposits of any maturity of amounts that exceed HKD500,000.

Deposit-taking companies are mostly either owned by, or associated with, a licensed bank and engage in a range of activities associated with consumer finance, including conventional lending, fund management and investment advice.

There is no central bank in Hong Kong, but the Exchange Fund of the Hong Kong Monetary Authority (HKMA) can act as a lender of last resort, ensuring stability in the financial system. Banks in Hong Kong are regulated by HKMA.

Only depositors with licensed banks are protected by the Deposit Protection Scheme, in which deposits of up to HKD500,000 are protected from loss by the Exchange Fund.

The tier system is intended to ensure that only suitable institutions can handle public deposits, while providing opportunity for other smaller institutions to enter the deposit-taking market and conduct investment banking business.

As of January 2016, there were 156 licensed banks, 24 restricted licensed banks, 18 deposit-taking companies and 62 local representative offices of foreign banking institutions.

The money market in Hong Kong is mostly interbank lending, the activity of which is aggregated to calculate the Hong Kong Interbank Offer Rate (HIBOR). As of September 2015, the average daily turnover in Hong Kong interbank market is HKD264.3 billion.

Other sources of finance
Aside from Initial Public Offering (IPO), the other main sources of finance for companies are to raise funds from either Private Equity or Venture Capital firms.

Venture Capital firms invest in young companies, providing "seed funding" to aid companies in initial growth stages. These firms also contribute with valuable business expertise, and aim to bring the company to an eventual IPO.

Private Equity firms provide either venture of buy-put opportunities which aid growth in the later stages of a firm's development.

Insurance industry
Hong Kong is one of the largest and most open insurance centres in the world and is home to some of the world's largest insurance companies. The total value of premiums issued in 2014 was approximately HKD339.3 billion. As of September 2015, there were 157 authorised insurers operating in Hong Kong.

As Hong Kong remains an open and competitive market, there has been a high level of development and competition in the insurance broking market. As of September 2015, there were 707 registered brokers in Hong Kong, which indicates a dynamic and competitive marketplace.

The insurance industry in Hong Kong is regulated by the Office of the Commissioner of Insurance (OCI).

Investment management industry
Hong Kong is one of the largest asset management centres in the world, and continues to attract a large quantity of international investors. According to the Fund Management Activities Survey 2014, carried out by the SFC, the value of the asset management business was HKD12,770 billion for 2014. Hong Kong also has a thriving fund management industry, which for 2014 was valued at HKD17,682 billion.

In order to provide further investment incentives and strengthen Hong Kong's position as an international financial centre, Hong Kong has exempted private equity funds from capital gains tax on profits for private companies registered outside of Hong Kong.

The MPF system was established in 2000 to guarantee retirement protection for Hong Kong workers, and has generated a market for numerous retirement assets. This has not only provided additional demand to the investment management industry, but introduced more stability, due to the long term nature of retirement based products.

In 2013, Hong Kong Government introduced new measures aimed at promoting the territory's growing asset management industry. Changes to the tax law are being implemented to provide tax exemptions on profits that are generated from offshore funds in overseas private companies that do not own assets or property in Hong Kong. Efforts are also being made to establish mutual recognition with Mainland China so that funds could be freely sold on the Mainland and vice versa.

Infrastructure

The overall quality and reliability of infrastructure is a critical factor for businesses across all sectors. Hong Kong provides world class business infrastructure, with excellent transport links, telecommunications and port and airport facilities. Hong Kong is ranked 15th in the World Bank Logistic Performance Index 2014.

Hong Kong has strong transport links which afford excellent trade and connectivity with the rest of the world. Hong Kong has one of the busiest container ports in the world and is the only modern deep water port between Singapore and Shanghai, making it a focus for trade in the area.

Hong Kong International Airport is one of the busiest in the world, and widely regarded as among the best. The airport is connected to the central business district by a high speed rail link, and commutes over 60 million passengers annually.

There are a number of major building developments being made to add to Hong Kong's transport infrastructure, which include:

- The Hong Kong-Zhuhai-Macao Bridge
- The Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Three-Runway System

Hong Kong has an excellent telecommunications network, with 100 per cent broadband and 3G coverage across the territory. In the World Economic Forum's Global Information Technology Report 2015, Hong Kong was ranked the first for mobile network coverage and the second in the world for International Internet Bandwidth.

The electricity infrastructure is of the highest quality and has widespread and reliable coverage. Water is clean and readily available, and transport is convenient with a large network of public transport and taxis.

Hong Kong has strong transport links which afford excellent trade and connectivity with the rest of the world.