



Setting Up a Business in Hong Kong

The foreign investor's guide
to navigating complexity in
this exciting jurisdiction



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Jurisdiction profile

Some 170 years ago, Hong Kong was a small fishing village on an island just off the south China coast. Today, it's an economic powerhouse—one of the world's main trade, business, and financial centres.

Hong Kong was a self-governing British colony from 1841, before becoming a Special Administrative Region of the People's Republic of China in 1997. Under the "one country, two systems" policy, Hong Kong is a different jurisdiction with a separate legal system, regulations, and currency from mainland China. This arrangement, which excludes foreign and defense affairs, is due to expire in 2047.

Over the past few decades, Hong Kong's economy has shifted away from manufacturing towards a high value-added, knowledge-based economy, focusing on international trade, financial services, and tourism.

The Hong Kong government has identified four industries they call the "four pillars" that contribute about 58% of the territory's gross domestic product. They are financial services, tourism, professional services, and trading and logistics.

In terms of foreign direct investment (FDI), Hong Kong was the world's fourth-largest destination with USD 1.88tn in 2020, after the United States, the United Kingdom, and mainland China, as well as the world's seventh-largest investor with USD 1.9tn¹.

After a COVID-related downturn in 2020, the economy rebounded in 2021, led by a sharp increase in global demand, which drove export traffic. According to the World Trade Organization (WTO), Hong Kong was the world's sixth largest exporter of merchandise trade in 2020, up two places from 2019.

The financial system continued to expand robustly even during the pandemic, while maintaining Hong Kong's role as a major international financial center.

Hong Kong has established itself as the premier stock market for companies from mainland China seeking to list abroad and as a key renminbi (RMB) offshore center. In 2021, it was the largest offshore RMB clearing center, sharing about 76% of the world's RMB payments².

The bond market in Hong Kong is Asia's third largest after the mainland and South Korea, with an outstanding principal amount of approximately USD 300bn as of September 2021, with issuances denominated primarily in RMB and Hong Kong dollars.



¹ Hong Kong Trade Development Council

² SWIFT

Why invest in Hong Kong?

A leading international financial center

One of the world's key financial centers, Hong Kong is the world's third most-competitive global market in which to do business³. It is also home to Asia's second-largest foreign exchange market—and the world's fourth-largest behind London, New York, and Singapore.

A major transport hub in Asia

Hong Kong International Airport is the busiest for international cargo globally⁴, while its port is among the world's eight busiest for container shipping⁵.

Opened in 2018, the Guangzhou-Shenzhen-Hong Kong Express rail link runs from its terminus at Hong Kong West Kowloon Station to Shenzhen in 14 minutes, shortening travel time to Guangzhou to 46 minutes. The 55km-long bridge that connects Guangdong, Hong Kong, and Macao is the world's longest bridge-tunnel sea crossing. It puts the western Pearl River Delta region within a three-hour drive of Hong Kong.

Greater Bay Area (GBA)

The Guangdong-Hong Kong-Macao Greater Bay Area (GBA) comprises the two Special Administrative Regions of Hong Kong and Macao, and the nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, and Zhaoqing in Guangdong Province.

It was set up in 2017 when the government of Guangdong, Hong Kong, and Macau signed a cooperation framework agreement with China's National Development and Reform Commission to develop the region.

With a total population of over 72 million and gross domestic product (GDP) amounting to USD 1.7tn, the GBA aims to promote its strengths across a large number of sectors to become an international technology and innovation business hub.

The GBA cities are located only an hour away by train, car, or high-speed ferry from Hong Kong, making the jurisdiction the ideal base for investments into the Bay Area of mainland China.

Gateway to China

Given its proximity to mainland China, the territory is often considered a gateway into the Asia-Pacific region and China's fast-growing markets.

China is Hong Kong's largest trading partner, accounting for 52% of total trade in 2021⁶.

The Closer Economic Partnership Agreement (CEPA), signed in 2003, is a free trade agreement offering favorable trading and investment conditions for Hong Kong companies conducting business in mainland China. This preferential treatment applies to both goods and services, as well as to Hong Kong companies set up by foreign investors.

A multicultural talent pool

The territory is home to a diverse talent pool. Many Hong Kong professionals are bilingual in English and Cantonese, while many also speak Mandarin, mainland China's official language.

The Top Talent Pass Scheme

In October 2022, the government is launched a new two-year program designed to attract talent to pursue careers in Hong Kong. Under the Top Talent Pass Scheme, applicants are not obliged to have secured a job offer before arriving in the city. The program is aimed at high earners as well as recent graduates from the world's 100 top universities with three years' work experience over the past five years.

³ World Economic Forum, Global Competitiveness Index 2019

⁴ Statista

⁵ World Shipping Council

⁶ Hong Kong Trade and Industry Department

Hong Kong at a glance



Official languages

Chinese and English:
Cantonese is spoken by 89% of the population



Currency

Hong Kong dollar (HKD)



Population

7.6 million (2022)⁷



GDP

USD 368bn (2021)⁸



Area

1,104 sq km



GDP per capita

USD 49,727 (2021)⁹



Hong Kong Standard Time

GMT +8



Telephone country code

+852

⁷ Worldometer

⁸ Countryeconomy.com

⁹ Countryeconomy.com

How to do business in Hong Kong?

Entry options for foreign investors

Starting a company in Hong Kong is simple and swift—a business can be registered within a day. Foreigners can control up to 100% of the entity and be appointed as directors, even if they are not citizens or residents. The few sectors restricted for foreign investors include broadcasting and telecom.

Business entities available for foreign investors include:

- Limited company
- Foreign branch office
- Partnership

Limited company

Limited companies are the most common entity. Owners can take advantage of all tax benefits and concessions available to businesses incorporated in Hong Kong. These include the Closer Economic Partnership Arrangement (CEPA) free trade agreement with mainland China.

The most common entity used by foreign investors in Hong Kong is private limited liability, which can be set up with as little as HKD 1 in share capital.

A limited company must have at least one director, who must be an individual, and one company secretary, residing in Hong Kong as an individual or a company. If there is only one director, that person cannot also be company secretary at the same time.

The company's registered office must be in Hong Kong. Shareholders and directors are not required to be Hong Kong residents.

Foreign branch office

A branch office is the choice for companies incorporated outside Hong Kong wanting to establish a business base in the territory.

A branch office must be registered with the Companies Registry as a registered non-Hong Kong company within one month of establishment. A branch office is not a separate legal entity from its parent company and can leverage funds using its owners' credit rating.

Partnership

Investors can establish either a general or limited partnership.

Every partner in a general partnership is personally liable for the business's debts and liabilities. In a limited partnership, the limited partners' liability is limited to their share capital, while the general partner has unlimited liability and is responsible for day-to-day running of the business.

Since 2020, investors have been able to set up limited partnership funds (LPFs) for private equity and venture capital funds in Hong Kong. LPFs' flexibility and legal protections are comparable with those in other fund jurisdictions, such as Delaware and the Cayman Islands.

The LPF regime aims to attract private capital to Hong Kong and bolster funding of corporates, including innovation and technology start-ups in the Greater Bay Area.



Taxation

Hong Kong is one of the world's most tax-friendly jurisdictions, with some of the lowest rates in Asia. The system is very simple, the only direct taxes concerning business are:

- Profits tax
- Salaries tax

Allowances and deductions can further reduce taxable amounts.

Value-added tax (VAT), capital gains tax, dividend tax, interest tax, capital gains, and estate tax are not applied in Hong Kong.

Profits tax

Corporations are liable only for a profits tax. The rate is 8.25% for the first HKD 2mn of profits. Above that, they are subject to a rate of 16.5%. However, under Hong Kong's Two Tier Profits Tax Regime, only one entity in a group of connected entities can apply for two-tiered tax rates.

For smaller businesses, such as partnerships and sole proprietorships, the two-tiered tax rates are 7.5% and 15%.

Salaries tax

Employment and pension income is taxed under a salaries tax. Individuals are taxed at progressive tax rates between 2% and 17% on their net chargeable income after deductions and allowances, or at a standard rate of 15% on their net income, whichever is lower. The tax year runs from April 1 to March 31 of the following year.

Stamp duty

Stamp duty is charged at a 0.26% rate on the price or market value (whichever is higher) of Hong Kong property transactions.

Tax treaties

Hong Kong has concluded 45 tax treaties with different jurisdictions (see annex).

Tax incentives

There are no specific incentives for foreign investment, although offshore funds may be exempt from profits tax in certain cases.

Businesses that invest in innovation can apply for tax breaks. The tax deduction for the first HKD 2mn spent on research and development is 300%.

Free trade port

There are no tariffs for goods entering Hong Kong. However, oil, liquor, methyl alcohol, and tobacco are subject to excise duties.



Employment and labor regulation

Employment contracts can be written or oral. They must include the main terms of employment, including wages, notice periods, and any year-end payments.

Employers and employees are free to negotiate the terms and conditions of employment, provided they do not violate Hong Kong employment law.

Social security system

Employees in Hong Kong must join a privately-run compulsory retirement savings fund, the Mandatory Provident Fund (MPF), with employers making a matching contribution of 5% of the monthly salary. This is subject to minimum and maximum relevant income levels. For employees paid monthly, the current minimum and maximum relevant income levels are HKD 7,100 and HKD 30,000 respectively¹⁰.

Termination

Employment contracts can be terminated by employer or employee giving the other party notice or payment in lieu of notice. The minimum notice period is seven days.

Employers may dismiss an employee without notice or payment in lieu of notice for serious misconduct or failure to improve performance despite repeated warnings.

However, employers cannot dismiss sick or pregnant employees, staff who belong to unions, or injured employees without agreeing compensation. Employers dismissing staff under these circumstances are liable for prosecution and a HKD 100,000 fine.

Termination payments usually include:

- Outstanding wages
- Payment in lieu of notice, if any
- Untaken annual leave
- Severance payment, if applicable
- Any other payments under the employment contract

¹⁰ Hong Kong Mandatory Provident Fund Scheme Authority

Severance payments

Employees made redundant or laid off are entitled to severance pay if they have been employed for at least two years.

Maternity and paternity leave

Female employees on a permanent contract are entitled to a continuous period of 14 weeks' maternity leave. An additional four weeks' leave can be granted in the case of illness or disability arising from the pregnancy or delivery.

Daily pay is equivalent to four-fifths of the average daily amount earned by the employee in the 12 months before maternity leave started. Pay during the last four weeks of maternity leave is capped at HKD 80,000.

Male employees on permanent contracts are entitled to five days' paternity leave for each birth.

Foreign employees

Foreign employees need a visa to work in Hong Kong. To qualify for an employment visa, they must demonstrate skills, knowledge, or experience that are unavailable locally. They must also nominate a sponsor, which must be a Hong Kong company or a foreign company registered in Hong Kong.

Visa applications take about six weeks to be processed.

There is also a special migration visa scheme for foreign entrepreneurs who wish to relocate and run their own business in Hong Kong.

Business hours

Typical office hours are between 9 a.m. and 6 p.m., Monday to Friday.

Annual leave

Employees are entitled to paid annual leave if they have worked under a permanent contract for 12 months. Entitlement increases progressively from seven days to a maximum of 14, depending on length of service.

Public holidays

Employees are entitled to the following 13 public holidays, irrespective of the length of service: New Year's Day (January 1), Lunar New Year's Day, the second and third days of Lunar New Year, Ching Ming Festival, Labor Day (May 1), the Birthday of the Buddha, Tuen Ng Festival, Hong Kong Special Administrative Region Establishment Day (July 1), the day following the Chinese Mid-Autumn Festival, Chung Yeung Festival, National Day, Chinese Winter Solstice Festival, or Christmas Day (at the option of the employer).

Most banks, financial services, and offices are closed on Good Friday and Easter Monday.

¹¹ Hong Kong Labour Department



If a public holiday falls on a rest day, employees should be granted a holiday on the next working day or an alternative holiday.

Minimum wage and overtime

As of 2020, the minimum wage for non-domestic workers is HKD 37.50 per hour¹¹.

An employee on a permanent contract is entitled to at least one rest day every seven days.

There is no legal requirement for overtime pay. Extra pay for overtime can be outlined in the employment contract.

HR legislation

The Employment Ordinance, enacted in 1968, is the main legislation setting out minimum rights, benefits, and protection for employers and employees in Hong Kong.

Anti-discrimination rules protect employees against discrimination on the basis of gender, marital status, pregnancy, breastfeeding, disability, race, and family status.

Employers must comply with the Hong Kong Labour Department's ordinances ensuring the safety and health of employees at work.

How CSC can help you invest in Hong Kong

Before entering the Hong Kong market, foreign investors should rely on professional advice to navigate these complex matters. Working with a trusted partner is essential.

Who we are

CSC provides knowledge-based solutions for every phase of the business life cycle, helping businesses form entities, maintain compliance, execute transaction work, and support real estate, M&A, and other corporate transactions in hundreds of U.S. and international jurisdictions.

We work with some of the world's largest banks and commercial lenders to reduce risk in their lien portfolios, improve their transaction speeds, and create a secure environment for their financial processing needs. We also provide solutions for secure real estate document preparation and recording.

We are the trusted partner for 90% of the Fortune 500®, nearly 10,000 law firms, and more than 3,000 financial organizations. Headquartered in Wilmington, Delaware, USA, since 1899, we are a global company capable of doing business wherever our clients are—and we accomplish that by employing experts in every business we serve.

What we can do

CSC provides a wide range of financial and administrative services to clients operating and investing in the international business environment. We help companies expand globally, offering support with restructuring, outsourcing, and further developments.

We are experts in management and administration services to operational companies and holding structures across the globe. In Hong Kong, our multilingual team understands local rules, culture, and customs, and how they affect legal and regulatory requirements for businesses in this exciting jurisdiction.

We also provide end-to-end support for alternative fund managers covering the formation, governance, and administration of alternative funds established in Hong Kong and other offshore jurisdictions.



Corporate and Legal Services

- Company formation and incorporation
- Domiciliation and entity management
- SPV Administration services
- Payroll services
- Accounting and reporting
- Tax Compliance services
- Corporate Secretary services
- Treasury management
- Escrow
- Global subsidiary management
- Private client solutions (family office, succession planning, philanthropy, asset protection)

Funds Solutions

- Fund administration
- Investor services
- Fund Accounting and Reporting services
- Shadow accounting
- Global treasury management

Global Capital Markets

- Orphan SPV services
- Trustee services
- Loan administration
- Escrow services
- Process agent
- Facility agent
- Cash management
- Treasury management



Appendix

Double taxation agreements

| | | |
|----------------|----------------|----------------------|
| Austria | Ireland | New Zealand |
| Belarus | Italy | Pakistan |
| Belgium | Japan | Portugal |
| Brunei | Jersey | Qatar |
| Cambodia | South Korea | Romania |
| Canada | Kuwait | Russia |
| Czech Republic | Latvia | Saudi Arabia |
| Estonia | Liechtenstein | Serbia |
| Finland | Luxembourg | South Africa |
| France | Macau SAR | Spain |
| Georgia | Mainland China | Switzerland |
| Guernsey | Malaysia | Thailand |
| Hungary | Malta | United Arab Emirates |
| India | Mexico | United Kingdom |
| Indonesia | Netherlands | Vietnam |

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