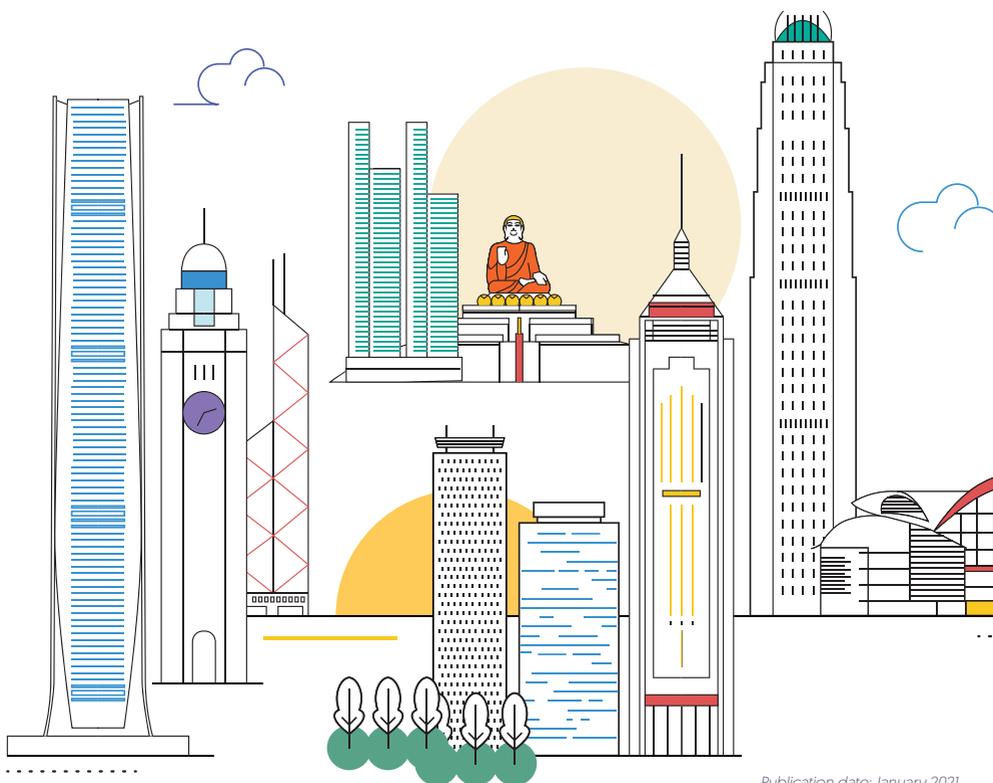
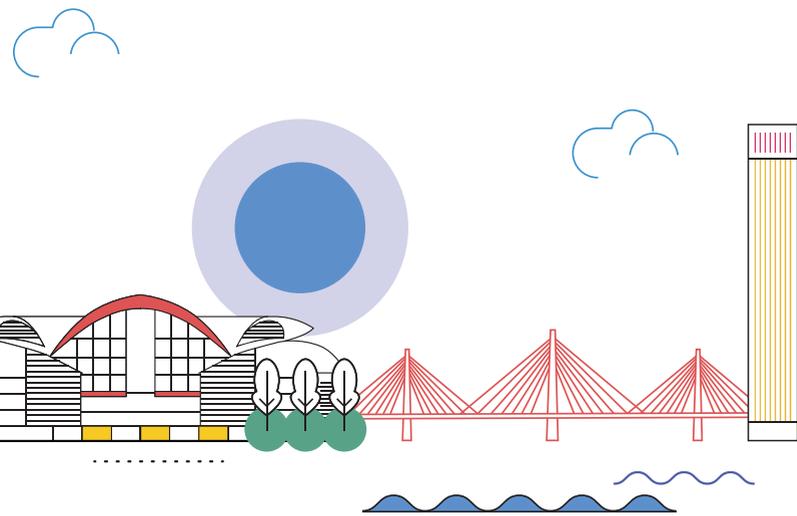


# DOING BUSINESS GUIDE

## SETTING UP YOUR BUSINESS IN HONG KONG: WHY AND HOW?



Publication date: January 2021





## INTRODUCTORY NOTE

The former British colony, handed back to China in 1997 with a special status, is known throughout the world as a strategic platform for business in the whole of the Asia-Pacific region. Hong Kong remains the gateway to Continental China but also an essential crossroads: “Where East Meets West”.

The appeal of Hong Kong is expressed by the ease of doing business for companies, total economic freedom and attractive tax policies. For over 21 years, Hong Kong has been systematically ranked top of the economic freedom index giving it a decisive asset when it comes to foreign companies deciding where to locate.



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# FRENCH FOREIGN DIRECT INVESTMENTS BAROMETER IN HONG KONG



**Internationalisation projects are moving to HK** (17/711), 13<sup>th</sup> global destination for French intermediate businesses, SMEs and start-ups



**French companies prefer to create a company** rather than go through an external growth operation in 89% of cases (15/17)



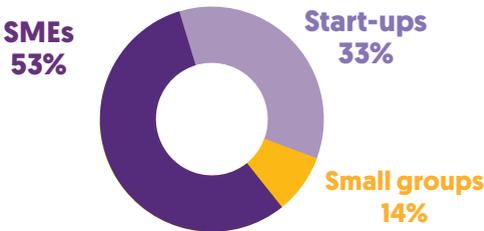
Hong Kong, in all, represents 29% **of growth projects in Greater China** (China - Hong Kong - Taiwan)



On average, companies locating to Hong Kong have also conducted operations in 4 or 5 other countries

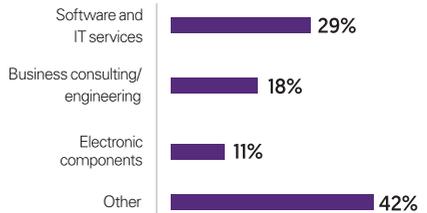
Praxe Office

In 2019, **companies located in Hong Kong** were distributed as follows:



**Newly incorporated companies in Singapore by type of French investors (2019)**

These **internationalisation operations** mainly concern the following areas:



**Per sectors / Key business areas (2019)**

# 5 KEY QUESTIONS TO BE BETTER PREPARED

## Do I need to travel to Hong Kong for the opening of my company?

It is possible to open a company remotely. However, most traditional banks require the directors to travel to open an account.

## What are the conditions for obtaining off-shore status?

Hong Kong applies the principle of territoriality of taxation. Any operation taking place outside the territory is non-taxable. However, the notion of substance is required to justify the creation of a company for any purposes other than tax.

## What are my accounting obligations?

An annual audit is mandatory in Hong Kong without restrictions. After the establishment of the company, the first audit must be performed within the first 18 months before becoming annual.

## Can I develop business in mainland China from Hong Kong?

Although Hong Kong has always been a favourite destination for the Chinese, Hong Kong can only be a stepping stone in the development of business in mainland China. Starting a business in Hong Kong should be considered as part of a regional strategy through the facilities provided by the territory in legal, administrative and fiscal terms.

## How to embed a Hong Kong-China strategy?

Hong Kong is autonomous on monetary, legal and tax levels. As a legacy of its membership of the British Empire, Hong Kong is governed by common law and not by Chinese law. In fact, the Hong Kong legal system makes foreign investment safer and promotes financial arrangements in Hong Kong rather than in mainland China, when creating a joint venture, in particular with a Chinese partner.



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# HONG KONG IN FIGURES

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## KEY FIGURES

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**1<sup>st</sup>**

country in the global  
economic freedom index

**3<sup>rd</sup>**

global financial centre

**5<sup>th</sup>**

country for FDIs

**2<sup>nd</sup>**

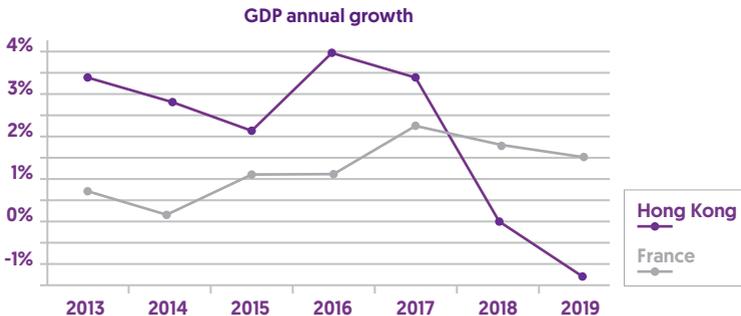
country where it is easy  
to do business

2019



Country ranking (GDP)	<b>7</b>	<b>36</b>
GDP (in billions of \$)	<b>2,778</b>	<b>366</b>
GDP growth (%)	<b>1.5</b>	<b>-1.2</b>
Population (in M)	<b>67</b>	<b>8</b>
Standard & Poor's sovereign risk	<b>AA</b>	<b>AA+</b>
Ease of doing business [1 – 189]	<b>32</b>	<b>3</b>

Source: World Bank



## THE KEY STRENGTHS

- Top-level infrastructure
- Very favourable business environment
- Very close to China
- Attractive tax system: Corporate tax at 16.5%
- Many investors

# 10 GOOD REASONS TO SET UP A BUSINESS IN HONG KONG



## A STRATEGIC LOCATION

- A privileged place from which to launch investments in China.
- Free trade partnership with continental China - CEPA (*Closer Economic Partnership Arrangement*)
- New free trade agreement with South-East Asia
- Ease of creating and managing a subsidiary in China with a parent company in Hong Kong.
- Ongoing integration in the *Greater Bay Area* (GBA), a real economic powerhouse of China with Hong Kong at its heart



## AN ATTRACTIVE TAX SYSTEM

- In Hong Kong, tax rates are very low in order to promote trade relations
- The tax rate on companies is 16.5%, the effective rate on income does not exceed 15%
- No tax on capital gains
- No VAT



**Comparison of taxes based on host countries**

Source: "Invest in the UK: Your springboard for global growth." UK trade & Investment.

# 3

## A BUSINESS-ENABLING ENVIRONMENT

- Hong Kong is listed as the most liberal economy and the most conducive to investment and international trade
- A company can be registered within two weeks without any restrictions on the intake of foreign capital or on the corporate purpose of the company (except for areas that are regulated such as banking, insurance, etc.)
- Hong Kong is a major port entirely driven by free trade and free market principles
- For business conducted outside the territory of Hong Kong, the tax rate is 0%. Regarding its offshore status, other conditions apply. In this case, government approval is required

### TOP 5 – Index of Economic Freedom

Ranking	Country	Score
1	Singapore	89.4
2	<b>Hong Kong</b>	89.1
3	New Zealand	84.1
4	Australia	82.6
64	France	66.00

Source: the Heritage Foundation - 2020 Index of Economic Freedom

# 4

## WORLD CLASS TRANSPORT INFRASTRUCTURE

- More than 85 airlines operate out of Hong Kong, more than 180 cities are directly connected including 44 in China
- Hong Kong Airport is regularly cited as the world's best. Access to the city centre in 23 minutes
- 90% of the active population use public transport for their professional obligations at very attractive prices
- Hong Kong is a hub for business transactions, representing a third of exports to mainland China

# 5

## A GLOBAL FINANCIAL CENTRE

- Hong Kong is the 5<sup>th</sup> leading global financial centre, often cited as the most conducive location for entrepreneurs to raise capital in Asian markets
- Since 2009, Hong Kong banks have been authorised to process the Chinese Renminbi and settle any trade agreements with China in Hong Kong.
- In 2019, Hong Kong was the 5<sup>th</sup> ranking host destination of foreign investment in the world

**TOP 5 – Global Financial Centre Index**

Ranking	City	Rating
1	New York	770/1,000
2	London	766
3	Shanghai	748
4	Tokyo	747
5	<b>Hong Kong</b>	743

Source: *The Global financial Centers Index 28 – September 2020*

# 7

## A HYPER-CONNECTED CITY

- Access to more than half the world's population in less than a five hour flight away.
- In terms of IT infrastructure, Hong Kong is the leading economy in Asia and 7<sup>th</sup> worldwide according to "*The Economist Intelligence Unit*"

# 9

## A SKILLED POPULATION

- Hong Kong is renowned for the quality of its universities. It is 8<sup>th</sup> in the Shanghai ranking of world's best universities
- Hong Kong is an ideal location for research and development in Asia
- New projects such as the new Silk Roads and the "*Greater Bay Area*" are very attractive and can attract young talent from around the world, including 2<sup>nd</sup> generation Hong Kong immigrants willing to return and work in Hong Kong

# 6

## A STRONG INTERNATIONAL CULTURE

- With more than 350,000 expatriates and mass tourism (10<sup>th</sup> global tourism economy), Hong Kong is a perfect blend of local and western cultures fully facilitating exchanges and trade relations
- A powerful French network (<sup>leading</sup> non-English speaking network with over 25,000 expatriates) for strong assistance between Hong Kong-based companies

# 8

## A STABLE ECONOMIC POLICY

- Despite recent events, the principle of "one country, two systems" is fundamental between China and Hong Kong and the territory's autonomy has not been affected in terms of its economic policy. Only international diplomacy and defence matters are handled by the central government in Beijing

# 10

## AN INDEPENDENT LEGAL ENVIRONMENT

- The legal system is independent and radically different from that practised in China since, for the most part, it is based on Anglo-Saxon principles (British *common law* system)
- The protection of intellectual property is enhanced with strict regulations on patents, copyrights and trademarks
- There is a tax agreement with France to prevent double taxation

# OVERVIEW OF THE LOCAL/LEGAL STRUCTURES IN HONG KONG

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## LIMITED COMPANY

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**A Limited Company is managed by two bodies: the shareholders and the “directors”**

- No minimum capital required (even if we do recommend 10,000 HKD).
- Shareholders’ liability is limited to contributions.

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## PARTNERSHIP

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**Similar to Sole Proprietorship, simply co-owned with a partner**

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## SOLE PROPRIETORSHIP

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**The simplest form but also the one incurring most risks as the company and owner cannot be dissociated.**

---

## BRANCH OFFICE

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**Can be rolled out as a subsidiary of the parent company in France or as a Representative Office**

# INCORPORATING YOUR SUBSIDIARY IN HONG KONG

## For a Private Company Limited

1

Search for the uniqueness of the company name on the online database - *Company Registry*

1 DAY

2

Preparation of the "Articles of Association"

1 DAY

3

Preparation of incorporation documents, including NNC1

1 DAY

4

Sending of original copies signed by the directors and shareholders to the Company Registry

1 DAY

5

Retrieval of the certificate of incorporation 4 days later



Overall timeline approx.

**1 to 2 weeks**

# MANAGING A SUBSIDIARY IN HONG KONG

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## INCENTIVES FOR INVESTMENT IN HONG KONG

---

**Hong Kong offers some tax relief or exemptions essential for running a business:**



Offshore status is possible (0 % corporation tax rate) if no transactions have been done in Hong Kong (other conditions apply)



Tax agreement between France and Hong Kong to avoid double taxation

## ESTIMATED COSTS RELATED TO THE MANAGEMENT OF A SUBSIDIARY

			
<b>Data in euros (€)</b>			
Average annual cost per sqm of office space	<b>526</b>	<b>1980</b>	<b>↗276%</b>
Average gross annual salary of a Sales Director	<b>105,000</b>	<b>176,826</b>	<b>↗68%</b>
Legal gross minimum hourly wage	<b>10.15</b>	<b>4.15</b>	<b>↘-59%</b>
Fastfood menu	<b>9</b>	<b>4.5</b>	<b>↘-50%</b>
Monthly public transport subscription cost	<b>75</b>	<b>56</b>	<b>↘-25%</b>
Monthly internet subscription 10Mbps	<b>27</b>	<b>21</b>	<b>↘-22%</b>
Prepaid mobile local rate - 1mn	<b>0.23</b>	<b>0.08</b>	<b>↘-65%</b>
Monthly rent (2-bedroom downtown apartment)	<b>2,655</b>	<b>3,965</b>	<b>↗49%</b>

01/11/2021: 1 HKD = 0.11 EUR

Sources: Robert Walters - Salary survey 2020  
Le coût de l'Expat - Banque Populaire

# FRANCE VS HONG KONG: EMPLOYMENT LAW AND TAX OVERVIEW

## EMPLOYMENT LAW



Contributions		
Employer contributions	<b>35% to 45%</b>	<b>5%*</b>
Employee contributions	<b>20%</b>	<b>5%*</b>
Legal weekly working time	<b>35 hours</b>	<b>-</b>
Paid leave in days	<b>30</b>	<b>7 minimum</b>

\*More than 1,500 HKD

### Redundancy in Hong Kong

In case of dismissal, notice periods are negotiated with the employer when drafting the contract. According to the law, during the trial period, notice is 7 days. After this period, the minimum is one month.

## TAXATION IN HONG KONG

### Income tax

Taxable income	Tax
Less than 132,000 HKD	0%
Between 132,000 HKD and 182,000 HKD	2%
Between 182,000 HKD and 232,000 HKD	7%
Between 232,000 HKD and 282,000 HKD	10%
Between 282,000 HKD and 332,000 HKD	12%
More than 332,000 HKD	17%

Effective tax rate 15%

### Corporate tax

**16.5%**  
Corporate tax

**8.25%**  
The tax rate  
for the first  
2,000,000 HKD of income

### Fiscal year in Hong Kong

1st April N to 31 March N+1

# SOCIOCULTURAL FEATURES

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## BUSINESS BEHAVIOUR & LIFESTYLE

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Eating noodles on your birthday brings luck and a long life!



The people of Hong Kong have experience of Chinese and western influence. They understand and know how to deal with both cultures



Hong Kong is the city that has the largest number of skyscrapers in excess of 14 storeys in the world, i.e. double that of its rival, New York City.



The Mongkok district of Hong Kong is the most densely populated area in the world.

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## LABOUR CODE

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There is no labour code comparable to the one in France

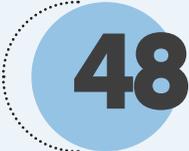


Employee protection hinges above all on the work contract

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## WORKING HOURS

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**48**

**Hours of work per week** for young people (under 18)



**12**

**Public holidays per year**



**7**

**Minimum of days paid annual leave**

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## IMPORTANT SPECIFICATIONS

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The shortage of affordable housing in Hong Kong is becoming a more urgent problem (more than 30% of the population currently lives in subsidised housing)

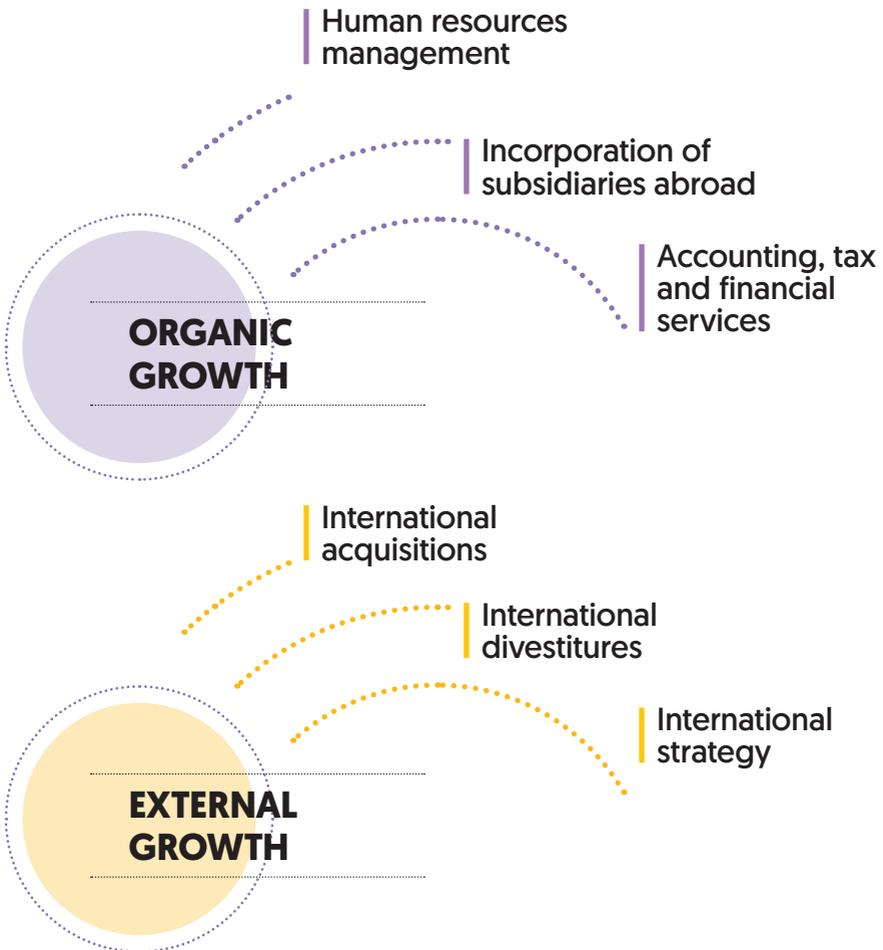


For an outsider, it is mandatory to obtain a visa to work in Hong Kong. The procurement procedures are quite long and increasingly stringent

# OUR EXPERTISE

## THE SPECIALIST IN SETTING-UP SUBSIDIARIES ABROAD

**No. 1** IN OUTSOURCED FINANCIAL, HR & LEGAL CORPORATE SERVICES FOR START-UPS, SMES AND SMALL GROUPS





## The specialist in creating subsidiaries abroad

We manage over **800 subsidiaries of French companies abroad.**



## Multiculturalism

**Multicultural experts** with perfect understanding of the French environment and local characteristics.



## Your international partner

**We support you in Europe, the United States, Brazil, Asia and North Africa.**

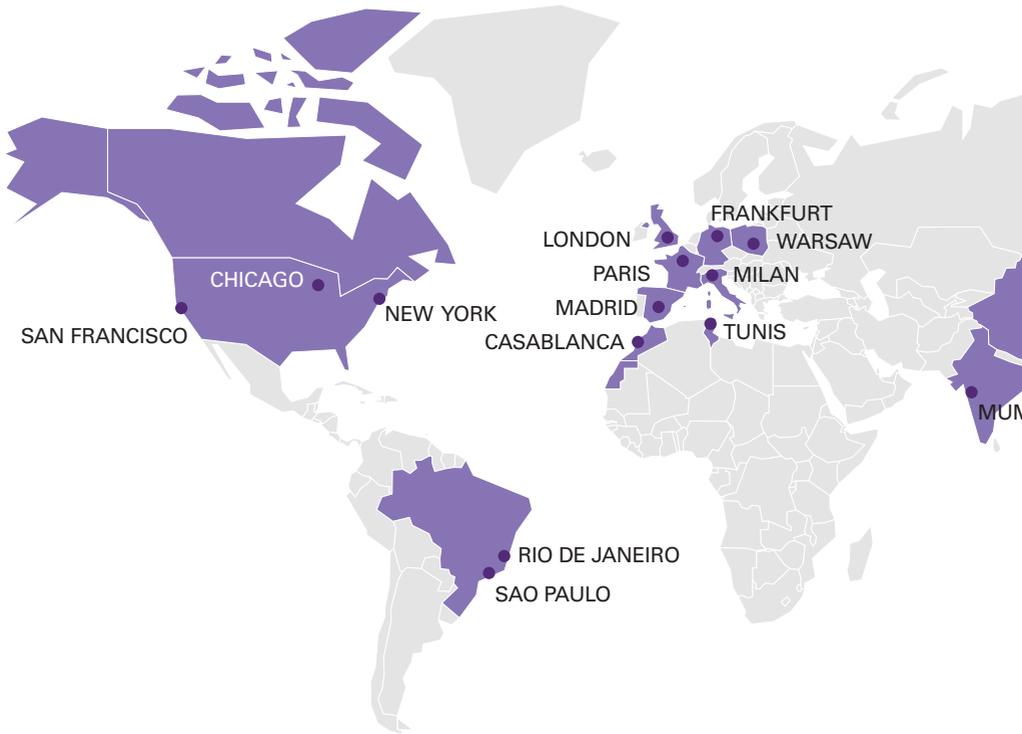


## A one-stop shop

**To assist you in the administration of your subsidiary** (accounting, tax, HR, reporting, insurance, etc.).

# ABOUT US

## THE FRENCH LEADING CONSULTING FIRM FOR INTERNATIONAL DEVELOPMENT



Subsidiary of  **GROUPE BPCE**, a cooperative bank and insurance group present in more than 40 countries and 2<sup>nd</sup> leading bank in France.



**+1,000**  
companies supported annually

**13**  
countries

**17**  
offices

**130**  
bicultural experts and  
professionals worldwide

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when it comes to setting-up operations abroad



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The contact information is presented within a rectangular box with a thin black border. On the left side of the box is a line-art illustration of a city skyline with three buildings of varying heights and a small cloud above them. The text "Hong Kong contact" is in a bold, dark grey font. Below this, the address and phone number are listed in a smaller, dark grey font. The bottom portion of the box has a light purple background.

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