

**Chandrawat  
& Partners**



# **DOING BUSINESS IN HONG KONG**

**A comprehensive guide**

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## ABOUT HONG KONG

Hong Kong was a vibrant special administrative region of China, known for its impressive skyline, deep natural harbor, and bustling streets. With a rich history of British colonial influence and a return to Chinese sovereignty in 1997, it's a meeting point of Eastern and Western cultures. The region prospers on free trade, a robust financial market, and a gateway status to mainland China. Despite its compact size, Hong Kong claims one of the world's most competitive economies and diverse societies, with a high density of 7.4 million people from various nationalities.

Entrepreneurs from all over the world prefer Hong Kong as their preferred destination to establish a businesses. Many investors and business owners are deciding to start their businesses abroad, outside their home country, particularly in Hong Kong. They do this to easily access international markets and take advantage of tax-friendly environments.

Hong Kong is often seen as a great place to start and manage a business because it's easy and fast to set up a business, 100% foreign ownership is allowed, offers low taxes, and ranks high in all aspects important to businesses.

Forex ▲ 3.6 ▼ 1.65

Gold ▲ 0.02 ▼ 0.25

## ECONOMIC OVERVIEW

The economy of Hong Kong is a highly developed free-market economy. It is characterised by low taxation, almost free port trade and a well-established international financial market. Its currency, called the Hong Kong dollar, is legally issued by three major international commercial banks, and is pegged to the US dollar. Interest rates are determined by the individual banks in Hong Kong to ensure that they are market driven. There is no officially recognised central banking system, although the Hong Kong Monetary Authority functions as a financial regulatory authority.

Its economy is governed under positive non-interventionism, and is highly dependent on international trade and finance. For this reason, it is regarded as among the most favourable places to start a company. In fact, a recent study shows that Hong Kong has come from 998 registered start-ups in 2014 to over 2800 in 2018, with eCommerce (22%), Fintech (12%), Software (12%) and Advertising (11%) companies comprising the majority. The Economic Freedom of the World Index lists Hong Kong as the second freest territory, with a score of 8.55 based on data from 2021.

Hong Kong's economic strengths include a sound banking system, virtually no public debt, a strong legal system, ample foreign exchange reserves with assets of US\$481.6 billion represent over six times the currency in circulation or about 46 per cent of Hong Kong dollar M3 as at the end of March 2022, rigorous anti-corruption measures and close ties with mainland China. The Hong Kong Stock Exchange is a favourable destination for international firms and firms from mainland China to be listed, due to Hong Kong's highly internationalised and modernised financial industry. Additional advantages include the city's capital market in Asia, its size, regulations and available financial tools, which are comparable to London and New York City.

## FOREIGN DIRECT INVESTMENT POLICY

### FDI in Figures

According to the World Investment Report 2023 released by UNCTAD, Hong Kong received USD 117.7 billion in FDI in 2022, down by 16% compared to the USD 140.1 billion recorded one year earlier. Despite the decrease, Hong Kong was the fourth receiver worldwide. At the end of the same year, the total stock of FDI stood at USD 2.09 trillion, around 579.1% of the country's GDP. Examining the primary sources of investment, the British Virgin Islands and mainland China are Hong Kong's top contributors to inward direct investment, accounting for 30.9% and 30% respectively of the stock at the end of 2022. Regarding the major economic activities of Hong Kong enterprise groups receiving FDI, those involved in investment and holding, real estate, and professional services held the largest share, totaling 65.4%, followed by banking at 13%, while import/export, wholesale, and retail trade comprised 10.9% (data Census and Statistics Department). According to the same source, 3,647 overseas companies had regional operations registered in Hong Kong as of 2023.

# FOREIGN DIRECT INVESTMENT POLICY

With advanced institutions and regulatory systems, Hong Kong's economy thrives on competitive sectors such as finance, professional services, trade, logistics, and tourism. Hong Kong maintains equality in law and practice between investments by foreign-controlled and local companies. Foreign entities can establish operations, register foreign branches, and set up representative offices in Hong Kong without facing discrimination or excessive regulation. Ownership of these operations faces no restrictions.

Hong Kong generally adheres to a free-market philosophy with minimal government intervention in economic matters. Capital gains remain untaxed, and there are no withholding taxes imposed on dividends and royalties. Moreover, profits are freely convertible and can be remitted without restrictions. On the other hand, factors potentially impeding FDI in Hong Kong include the lack of innovation and diversification in the economy, vulnerability to slowdowns in mainland China, disparities in business cycles between the United States and China due to the HKD-USD peg, risks within the real estate sector, particularly concerning housing affordability, and the upward trend in income inequality. Overall, Hong Kong has an excellent business climate, and it ranks 17th among the 132 economies on the Global Innovation Index 2023 and 14th out of 180 countries on the 2023 Corruption Perception Index.

# KEY SECTORS



There are four key economic sectors of Hong Kong which contributes to the GDP growth and economic development

## 1. Financial Services

Hong Kong is one of the world's leading international finance centres and has one of the world's most active and liquid securities markets. The financial services sector remains one of Hong Kong's most important economic pillars and accounts for 21.3 percent of the city's GDP. According to Invest Hong Kong, 78 of the world's top 100 banks call Hong Kong home. With over 163 licensed banks and 8 virtual banks Hong Kong has strong financial infrastructure. There is no control over capital movement, capital gains and tax on dividends. Hong Kong hosts the largest pool of RMB liquidity outside Mainland China and serves as a springboard for foreign firms seeking access to Mainland China and for Mainland companies going global.

### Leading Sub-Sectors:

#### Sustainable and Green Finance in Hong Kong:

Hong Kong's sustainable finance market raised to US\$80.5 billion by 2022, reflecting its ambition to become a regional leader in green finance. The government's Green Bond Program and subsidies, along with mandatory TCFD compliance, boost this growth. With one-third of Asia's sustainable bonds issued here, Hong Kong is diversifying into thematic debts like green instruments and transition finance. Preparing for a greener future, the government also successfully issued two batches of digital green bonds, including the world's first tokenised government green bond in February 2023 and world's first multi-currency digital bond in February 2024.



# KEY SECTORS

## ESG Talent and Technical Solutions:

As companies race to set more ambitious climate commitments and develop plans to reach them, there is a growing demand for ESG talent and consulting services. There is also growing demand for tools to monitor emissions, analyze and share ESG data, and predict future ESG performance. Additionally, financial institutions are increasingly seeking tools and services to compare and verify ESG reporting.



## Insurance:

This subsector is a major contributor to Hong Kong's financial industry. As of June 30, 2023, there were 164 authorized insurers in Hong Kong, including 89 pure general insurers, 53 pure long-term insurers, 19 composite insurers, and three special purpose insurers. According to the Financial Services and the Treasury Bureau, the industry had been growing at an average rate of 5.9 percent in the past five years from 2017 to 2021. Due to strict Covid-19 restrictions and the resulting economic slowdown, the subsector did witness some contract, as it was predicted to rebound to growth by the end of 2023.

## Family Offices:

Due to its advantageous location, robust financial infrastructure, and favorable economic policies, this subsector has been growing in Hong Kong. There have been significant developments related to family offices in Hong Kong including a proposed tax concession regime for family-owned investment holding vehicles (FIHVs). This change represents a lower threshold and provides flexibility to taxpayers, especially those wealthy families based outside Hong Kong. For these reasons, U.S. General Partners can look at Hong Kong as a good location for raising capital.





# KEY SECTORS

## Wealth and Asset Management:

The Wealth Management Connect program is a recently announced government-led initiative between Hong Kong, Macau, and the nine provincial cities in Guangdong known collectively as the Greater Bay Area (GBA). The program allows mainland Chinese investors domiciled in the GBA to invest in approved wealth management products in Hong Kong and Macau and allows foreign investors to tap financial products sold in China via the two cities. The Wealth Management Connect initiative gives Hong Kong's asset managers access to a market of 70 million people, 10 times the size of Hong Kong. Major financial institutions are actively growing their workforce to support the anticipated growth in this area.



## 2. Trading and Logistics

Strategically located at the heart of Asia, Hong Kong has been traditionally known for its booming trading and logistics industry. Trading and logistics account for 21% of Hong Kong's GDP and 19% of employment. Hong Kong is connected to the world and the Mainland China hinterland by a world-class international airport, a container terminal renowned for its efficiency and extensive land crossings. The well-developed multi-modal transport network gives the logistics industry flexibility in moving goods from one corner of the world to another. More and more companies are setting up regional distribution centers in Hong Kong to take advantage of the well-developed and interconnected air, sea, and road transportation modes. Hong Kong's security, transparency, efficiency, speed, and connectivity allow logistics service providers to pick goods of different types and models according to the needs of individual shops, carry out value-added procedures, and ship them out efficiently so that stock of the retail network could be replenished in a just-enough and just-in-time manner.

# KEY SECTORS

## 3. TOURISM

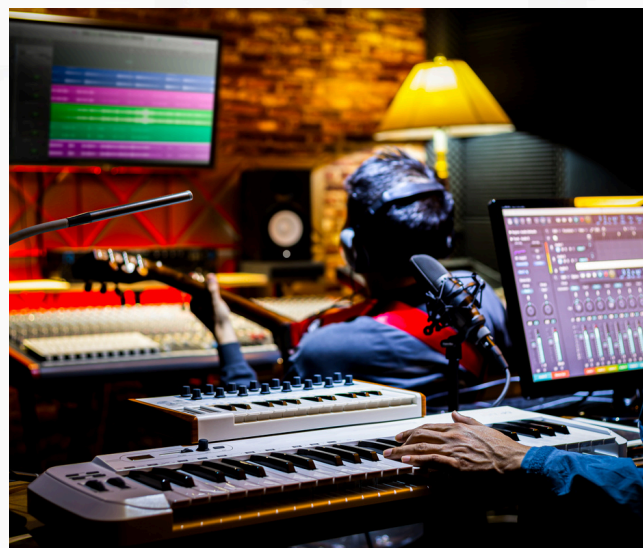
The tourism industry has been an important part of the economy of Hong Kong since it shifted to a service sector model in the late 1980s and early 90s. There has been a sharp increase of domestic tourists from Mainland China following the introduction of the Individual Visit Scheme (IVS) in 2003.

In 2011, Hong Kong's inbound tourism expenditure hit HK\$7,333 per person. Visitor numbers in 2010 surpassed 36 million, up 21.8% from 2009, with mainland China contributing the largest share. July 2011 saw a record-breaking 3.8 million visitors. Despite competition from neighboring regions, Hong Kong remains a key stop in multi-destination travel plans. Tourism, a vital income source alongside trade and finance, suffered a 40% drop post-2019 protests.



## 4. PROFESSIONAL & PRODUCER SERVICES

Hong Kong's professional and producer services are a cornerstone of its economy, contributing significantly to its GDP and employment. These services encompass a range of sectors including legal, accounting, auditing, consulting, and more, and are integral to Hong Kong's status as a global business and financial hub. The region's commitment to international standards and its strategic position as a gateway for foreign investments into Mainland China further enhance its appeal as a center for professional services.



# ADVANTAGES OF DOING BUSINESS

Hong Kong is an ideal place to invest or to do business. It is characterised by its:

- Free trade and investment policy
- Rule of law
- Complete freedom of capital movement
- Clean and efficient government
- Low and simple taxation
- Close proximity to markets in Asia
- Highly skilled workforce



## 1. Free Trade and Investment Policy

- Hong Kong is a preferred destination for doing business due to its dynamic economy, which is guided by the free market and free trade principles. You enjoy the freedom to practice trade and can run any business type as long as it is legal.
- No restrictions are imposed on inward and outward investments. There are no foreign exchange controls applicable, allowing free convertibility of Hong Kong dollar. The government also doesn't impose any restrictions on foreign ownership of companies.
- According to the World Bank's Doing Business 2020 Report, Hong Kong's ranking in ease of doing business saw a notable enhancement in 2019, securing the third position globally among 190 economies. This marks a one-place advancement from the previous year.

# ADVANTAGES OF DOING BUSINESS

## 2. Ease of Access to Chinese Market

Incorporating a company in Hong Kong is beneficial if your expansion plans include having a presence in the Chinese market.

The governments of Hong Kong and China have entered into a free trade agreement called Closer Economic Partnership Arrangement (“CEPA”). Under CEPA, you can export products to the Mainland China market by setting up a Wholly Foreign Owned Enterprise (“WFOE”) or joint venture (“JV”) company in Hong Kong. The ownership of WFOE is 100 percent foreign-owned, whereas a JV is set up through a partnership between Chinese and foreign investors.

Goods and products manufactured in Hong Kong enjoy zero tariffs on imports to China as long as they are of Hong Kong origin. Businesses trading in services can also enjoy benefits under CEPA if they meet the eligibility requirements of a Hong Kong Service Supplier. Such suppliers can receive preferential treatment while providing services in Mainland China.



# ADVANTAGES OF DOING BUSINESS

## 3. Independent Legal System

The competitive economy and free market offered by Hong Kong for businesses are strengthened by its independent legal system based on common law principles.

The enforcement of contracts is efficient and cost-effective. Apart from paying a nominal filing fee for registering the case with the appropriate court, the applicant doesn't have to pay any upfront fees. This is a departure from jurisdictions where litigants have to pay a percentage of the total amount of the claim as court fees.

The legal system also recognizes alternate modes of dispute resolution, such as arbitration and mediation. Hong Kong is a popular choice as the seat of arbitration. It is extremely rare for courts to refuse enforcement of an arbitral award, whether made in or outside of Hong Kong.

As a Special Administrative Region, Hong Kong is also the only jurisdiction that has numerous mutual arrangements with Mainland China that recognize and enforce court judgments and arbitral awards of civil and commercial disputes.

In December 2020, Hong Kong also entered into a supplemental arrangement with Mainland China for mutual enforcement of arbitral awards. Under the terms of this arrangement, the winning part of the arbitration can apply for parallel enforcement in China if the enforcement in Hong Kong is not successful.



# ADVANTAGES OF DOING BUSINESS

## 4. Hong Kong Government Support for Business Improvement and Growth

Over the years, the Hong Kong government has established several programs to support the growth of your business in Hong Kong.

For example, the Hong Kong Trade Development Council assists foreign companies that are keen to do business in Mainland China and other parts of Asia. Hong Kong companies also receive assistance in finding newer markets.

Similarly, the Hong Kong Productivity Council, a multi-disciplinary organization, helps companies in Hong Kong to do business more efficiently. Companies receive advice for upgrading their business performance and lowering operating costs. Businesses can also reach out to The Support and Consultation Centre for SMEs to receive information about various funding schemes available.

In addition to the above, a strict anti-corruption regime also help strengthen Hong Kong's image as a business-friendly jurisdiction. The government has set up the Independent Commission Against Corruption, which is authorized to look into corruption cases in both the public and private sectors.



# ADVANTAGES OF DOING BUSINESS

## 5. Cost-efficient Business Opening

One of the main reasons entrepreneurs consider Hong Kong to set up a company is the straightforward business registration. It is quick and fairly inexpensive. You can complete the incorporation process within a week. There are no requirements for holding a minimum share capital.

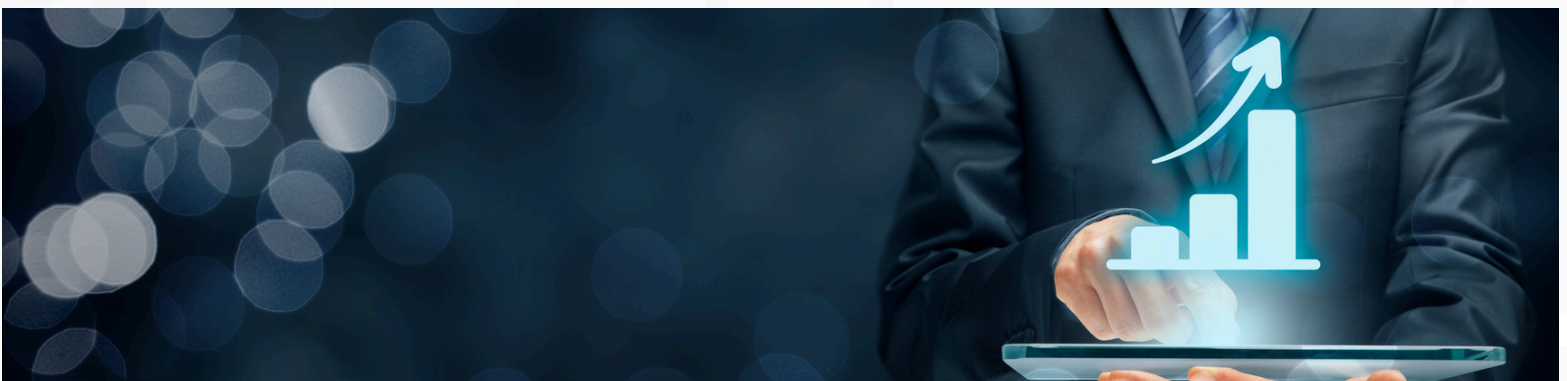
Compared to some other jurisdictions, incorporating a Private Limited Company (PLC) with a maximum of 50 individual shareholders in Hong Kong is streamlined. A limited company is the most common company structure in Hong Kong.

You also enjoy tax incentives for your business in Hong Kong. Companies are subject to a two-tier profits tax regime. For the first HKD 2 million, assessable profits of incorporated and unincorporated businesses are taxed at 8.25% and 7.5%, respectively. The remaining profits of incorporated businesses are taxed at 16.5%, while for unincorporated businesses, the tax rate is 15%.

Other countries in Southeast coast of Asia have higher corporate tax ranging from 17-30%. Vietnam's rate is 20% and Singapore is at 17%.

In terms of salary tax, Hong Kong employs a progressive tax system, wherein the tax rate increases with higher income levels. If you are subject to a salary tax assessment or have opted for personal assessment, you have the right to receive the basic allowance. You can potentially claim additional allowances that might lower your overall assessable income.

Meanwhile, a property used by the owner for personal occupancy is exempt from property tax since no rental income is generated from that property. Also, no withholding tax applies on dividend payments declared by a Hong Kong company to residents and non-residents. Additionally, there is no capital gains tax, value-added tax (VAT), goods and services tax (GST), or other export taxes payable in Hong Kong.



# TYPES OF BUSINESSES



## Sole Proprietership

It is the simplest form of business structure, as it is owned and operated by only one individual. The sole proprietorship is a good business structure for individuals seeking to establish a simple business in Hong Kong and it can be registered within one day.

## General Partnership

A general partnership is like a shared journey where partners are equally responsible and personally liable for managing and guiding the business. This partnership's financial obligations tie personal assets to the business's fate. This is a business owned by two or more people, as the name suggests.

## Limited Partnership

The limited partnership or LP, combines limited and general partners, providing limited liability for the former and complete exposure for the latter. This vessel involves two or more people and has at least one general partner. LP allows limited partners to invest without navigating the business directly, safeguarding them from the storms of unlimited liability.

## Limited Liability Partnership

An LLP offers professionals, like lawyers and accountants, protection from personal liability and allows pass-through taxation. Partners are safeguarded against each other's financial risks, making it a preferred business structure for licensed professionals.



# MINIMUM ELIGIBILITY CRITERIA FOR COMPANY REGISTRATION

## Hong Kong Limited Liability Company:

<b>Registered Capital</b>	No minimum share capital is required
<b>Share Subscription</b>	One share must be issued on registration
<b>No. of Sharecapital</b>	One shareholder can be citizen or Foreigner
<b>No. of Officer (Similar to director)</b>	One Director. Can serve as a director and shareholder
<b>Company secretary</b>	Must be a Hong Kong resident

## Hong Kong Limited Liability Partnership:

<b>Registered Capital</b>	No minimum share capital is required
<b>Share Subscription</b>	One share must be issued on registration
<b>No. of Share capital</b>	One shareholder can be a citizen or Foreigner
<b>No. of Officer (Similar to director)</b>	One Director. Can serve as a director and shareholder
<b>Company secretary</b>	Must be a Hong Kong resident

# MINIMUM ELIGIBILITY CRITERIA FOR COMPANY REGISTRATION

Other types of Companies	No. of Shareholders	Registered Capital	Type of Capital Contribution
Sole Proprietorship	1	Not applicable	Not applicable
General Partnership	2-20	Not applicable	Not applicable
Limited Partnership	At least 1 limited partner and 1 general partner	For each limited partner, a fee of HK\$8 for every HK\$1,000 of the sum contributed	Monetary or non-monetary (but must be specified)
Corporation	At least 1 registered shareholder	No. statutory minimum requirement	Monetary or non-monetary (but must be specified)
Non-Profit Organisation	Not applicable (members instead of shareholders)	No. statutory minimum requirement	Not applicable (Typically funded by donations and grants)

# HOW TO SET UP BUSINESS IN HONG KONG



Setting up a business in Hong Kong is an up-front process, and it's known for its ease of doing business. Hong Kong offers a dynamic market and a gateway to mainland China, making it an attractive location for entrepreneurs. To set up a business, you must decide on a company structure, register your company and business name, comply with tax requirements, and adhere to local laws. The process involves submitting necessary documents to the Companies Registry, opening a corporate bank account, and obtaining any relevant licenses or permits for your business operations.

Here are the important steps to set up a business in Hong Kong:

- **Decide on the Company Structure:** Choose the business entity that best suits company's needs (e.g., sole proprietorship, limited company).
- **Company Name Registration:** Ensure your chosen name is not already in use.
- **Company and Business Registration:** Submit the required documents to the Companies Registry and obtain a Business Registration Certificate.
- **Open a Corporate Bank Account:** A local bank account is essential for financial transactions.
- **You can secure a Business Address:** You can register a local address for your company.
- **Appoint a Company Secretary:** Required for limited companies.
- **Obtain Necessary Licenses and Permits:** Depending on your business activities, additional licenses may be required.
- **Understand Tax Obligations:** Familiarize yourself with tax laws and ensure compliance.

# TAXATION SYSTEM



Hong Kong is known for having one of the world's simplest and most business-friendly tax systems, making the city a preferred choice for conducting international business in Asia.

## Overview of taxation system in Hong Kong:

- **Territorial Principle:** Taxes profits derived from business conducted within Hong Kong.
- **Profits Tax:** Flat rate of 16.5% for corporate income tax.
- **Two-Tier Tax System:** Introduced in 2018, offering preferential rates for the first HKD 2 million of profits



## Onshore and offshore companies

- **Offshore Companies:** Conduct business outside Hong Kong and may qualify for 0% tax on foreign-sourced income.
- **Onshore Companies:** Operate within Hong Kong and are taxed on profits generated locally.

# TAXATION SYSTEM

## Tax Rates:

- **Single-Tier:** Standard rate of 16.5% for companies, and 15% for unincorporated businesses.
- **Two-Tier:** Reduced rate of 8.25% on the first HKD 2 million of profits, standard rate applies thereafter

## Tax Incentives:

- **100% Write-Off:** For machinery and environmental protection equipment.
- **Renovation/Refurbishment:** Five-year write-off period.
- **Intellectual Property:** Deductions for profits from selling IP.
- **Funds:** Tax exemptions for Hong Kong-operated funds under certain conditions

## Provisional Profits Tax:

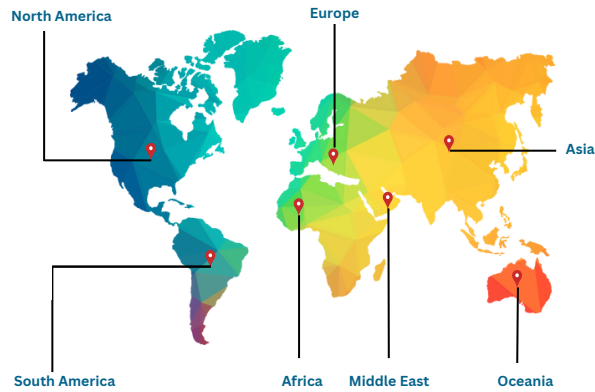
- **Advance Estimation:** Taxes estimated in advance based on previous year's profits.
- **Installment Payments:** Typically 75% initially, followed by 25% after three months.



# HOW WE CAN HELP?

- Our firm seeks to promote economic growth, encourage entrepreneurship, and establish a vibrant business climate in Hong Kong through strategic alliances, industry information exchange, technological advancements, support for market expansion, and CSR efforts.
- We look forward to cooperating with companies in Hong Kong and striving for success and prosperity for all. We can offer market research, analysis, and insights to help Hong Kong-based companies to expand beyond the local market.
- Our experts provides insightful advice on market entry tactics, target audience identification, and expansion planning thanks to our wide network and global presence.
- We can provide advice and consultation on Hong Kong's judicial and regulatory system. They can assist you with comprehending the regional rules, laws, and prerequisites for establishing and running a business in Hong Kong.
- Our team can help you with the procedure of business incorporation if you're trying to create a presence for your company in Hong Kong. They can assist you in taking the appropriate actions, such as registering your business, acquiring the required licenses and permits, and adhering to local laws

## SERVING CLIENTS WORLDWIDE



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Chandrawat & Partners is a leading and rapidly growing full-service firm providing high quality professional and corporate services to foreign and local clients, representing companies and individuals in a wide range of sectors through separate entities established in various countries worldwide.

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