

## Chapter 1 HONG KONG Introduction

Hong Kong is consistently described as the world's freest economy by highly reputable international institutions such as the Heritage Foundation and the Fraser Institute. In 2010, Hong Kong ranks the world's freest economy for a 17th consecutive year. Economic freedom has undoubtedly played a critical role in Hong Kong's success over the past few decades. Hong Kong became a Special Administrative Region of the People's Republic of China on 1 July 1997. Hong Kong has inherited the best legal system from its previous colonizer – the United Kingdom. The Basic Law of Hong Kong, which is a mini-constitution governing the affairs of the city, guarantees that the system will remain unchanged for 50 years. Hong Kong has high autonomy in the running of its own affairs:

Hong Kong has a population of over 7.097 million<sup>1</sup>, with a GNP per capital of USD 31,836<sup>2</sup>. Economically, Hong Kong is known as a world-class financial and trade centre. It is a member of WTO since its establishment and is the most important gateway for investing into China.

A low tax system, an excellent regulatory framework, the rule of law upheld by an independent judiciary and strong anti-corruption enforcement are all important factors in drawing international business to Hong Kong. As of 31 December, 2010, more than 1,285 international corporations had established regional headquarters in Hong Kong, while more than 2,353 had set up regional offices. The major advantages of using Hong Kong as a jurisdiction for business and asset planning are as follows.

### Taxation

Hong Kong's tax system is one of the most business-friendly in the world. Companies pay only 16.5% Profits tax and there is unlimited carry-over of losses. The maximum tax rate for individuals is 15%. There is no value added, sales or capital gains tax. Furthermore, there is no withholding tax on dividend and interest.

Another salient feature of the Hong Kong tax system is its reliance on the territorial concept of taxation. Only income sourced in Hong Kong is taxable. There is no global taxation and no restriction on capital flows into, or out of Hong Kong.

Besides signing Double Tax Agreements with Mainland China, Hong Kong has signed comprehensive Double Tax Treaties with Belgium, Thailand, Austria, Brunei, France, Hungary, Indonesia, Ireland, Japan, Kuwait, Liechtenstein, Luxemburg, New Zealand, Netherlands, The Kingdom of British, Vietnam, Switzerland, Portugal and Spain which has been expanding its international tax treaties and information exchange networks.

<sup>1</sup>Data as of 31 December 2010

<sup>2</sup>Data as of 31 December 2010



## Infrastructure and economy

Hong Kong has never been considered as a tax heaven. It is not on the list of OECD or FATF. **In fact, Hong Kong was the chairman of the FATF for the year 2001-2002.** Hong Kong is best known for its modern, efficient and low cost communications, and is in a prime geographical position for business expansion into China and other Asian economies. Hong Kong is located between the time zones of major markets in North America and Europe. It is also a regional transport hub providing easy access to North America, Europe, Asia and the Pacific.

Hong Kong is the world's 10th-largest exporter of services, only second to Japan in Asia. It is a prominent financial centre – the second largest stock market in Asia; the world's 12th largest banking centre and 6th largest foreign exchange market. In 2010, HKEx ranks No.1 on the list of IPO-fund globally.

## Law and legal system

Hong Kong law is based on the British common law. Foreign judges of common law origin are sitting in the courts of Hong Kong. The Final Court of Appeal is located in Hong Kong.

## Workforce

Hong Kong has a group of over 3.71 million<sup>3</sup> flexible, well-educated, resilient and industrious workforces. They have entrepreneurial flair, economic vibrancy, creativity and high productivity. Hong Kong offers nine years of compulsory and free education. 96% received education beyond the nine years of compulsory education and 30% of the population, aged between 17 and 20, receives tertiary education.

## Professional support

Many leading international professional legal and accounting firms have offices in Hong Kong. Some of their Asia headquarters are also established in this metropolitan city. There are at present almost 1,563<sup>4</sup> CPA firms with 31,667 CPA including 26,754 CPA and 4,913 Fellow. Besides, there are more than 738 solicitor firms and over a hundred barrister firms in Hong Kong.

## Hong Kong and China

Hong Kong as a port for China trade can be traced back to more than 150 years ago. Nowhere in the world can be comparable to Hong Kong in the provision of expertise, information and facilities in accessing the huge market of China. Politically speaking, Hong Kong is part of China. Subject to the Basic Law, Hong Kong will continue to retain a high autonomy under the one country, two systems concept.

Hong Kong has always been one of the biggest trading partners of Mainland China. About 60% of the external investments in the Mainland come from Hong Kong in 2010, ranking No.1 of FDI resources. In addition, Hong Kong is the major entrepot for China's trade in the world - 90 percent of Hong Kong's re-exports originate from, or are destined for the Mainland.

<sup>3</sup>Date as of 31 December 2010

<sup>4</sup>Date as of 31 January 2011.



## Closer Economic Partnership Arrangement

On 29 June ,2003, a "Closer Economic Partnership Arrangement" (CEPA) was signed between Hong Kong and Mainland China. CEPA gives Hong Kong business a major competitive advantage over other countries in doing business in China in goods, services, or trade and investment.

### 1 Commodity Trading

All goods imported from China into Hong Kong will continue to enjoy zero-tariffs, while 374 categories of goods, including over 4,000 items imported from Hong Kong into China will enjoy zero-tariffs concessions under CEPA. Other goods import into China will be expected to have the same treatment from 1 January ,2006.

### 2 Services

Under CEPA, 18 services industries are allowed to practise in the mainland provided that they meet certain criteria, including management consulting, exhibitions and conventions, advertising, legal services, accountancy, medical services, the real estate market, construction engineering, transport, wholesale distribution, logistics, tourism, audiovisual, banking, securities, telecommunication and insurance.

### 3 Trade and Investment Facilitation:

China and Hong Kong have agreed to promote cooperation in seven areas, including Customs Clearance Facilitation, Quarantine and Inspection of Commodities, Quality Assurance and Food Safety, Cooperation of Small and Medium-Sized Enterprises, Cooperation in Chinese Medicine and Medical Products, Electronic Commerce, Trade and Investment Promotion, and Transparency in Laws and Regulations.

