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Hong Kong Business Environment

1. Industrial Climate

Hong Kong has a free-enterprise, free-trade economy. The government has traditionally adopted a policy of non-intervention in the private sector, while at the same time providing the territory with a modern and sophisticated commercial infrastructure and a sound legal and administrative framework. The result of this government policy, an entrepreneurial population and an industrious workforce is a highly prosperous economy with one of the highest per capita GDPs in the Asia-Pacific region.

The Hong Kong economy is based on trade, and Hong Kong now ranks as the world's fifth-largest trading nation. It is estimated that approximately 90 percent of Hong Kong's manufacturing output is eventually exported. Hong Kong lacks most natural resources and is therefore heavily dependent on imports. However, because Hong Kong is primarily a free port (imposing no customs duties on imported goods), this does not pose a problem. In recent years, the limited supply of land available for industrial use and the tight labour market have encouraged many manufacturers to move part of their production across the border into the southern part of mainland China, where they can take advantage of lower land costs and a relatively cheap supply of labour.

In response to increasing competition from other developing countries in Asia, Hong Kong industrialists are modernizing their operations and moving into more sophisticated product lines. The overall objective is to move from simple processing work to more capital-intensive and technologically advanced production. At the same time, there is a shift of employment from the manufacturing sector to the services sector. Given its strategic location at the center of Asia and at the doorstep of the People's Republic of China, as well as the territory's excellent communications network and efficient transportation system, Hong Kong has developed into the hub for trade, finance and business services in the region.

2. Framework of Industry

There is very little state ownership and control of industry in Hong Kong. The only enterprises directly controlled by the government are the postal system, harbor, water supply, airport, Mass Transit Railway Corporation, along with Radio Television Hong Kong. Public utilities (electricity, gas and telephone) are provided privately under a franchise granted by the government.

For the most part, the Hong Kong economy is privately controlled. The shares of many of Hong Kong's publicly listed companies are generally not widely held. Many of the listed companies began as unlisted family-owned and -operated concerns. Since only 25 percent of the issued share capital of a

listed company is required to be offered to the public, in many cases the original shareholders retain close to 75 percent of the equity.

Small business plays an important role in Hong Kong. It is estimated that 85 percent of companies employed fewer than ten people.

3.Aims of Government Policy

The government does not undertake economic planning and does not have a specific industrial policy. Except with regard to the government-controlled enterprises discussed above, the Hong Kong government is firmly committed to free trade and free enterprise. Its policy is therefore to allow private enterprise to play the dominant role in Hong Kong's development.

(1) Economic Development Plans

Apart from providing the infrastructure, either through direct services or by cooperation with public utility companies and autonomous bodies, the government's role in the economy remains one of providing a stable framework within which commerce and industry can function efficiently and effectively with a minimum of interference. In keeping with its role of providing a modern and economic infrastructure for Hong Kong, the government in 1989 approved a major infrastructural project. It included the expansion of port facilities; the construction of a new airport on the island of Chek Lap Kok, near Lantau Island; and the building of a road/rail suspension bridge to connect Lantau with the mainland. Private and public sector investment spending on the airport and related infrastructure projects will play an increasingly important role in supporting the economy.

The government has no direct powers through which it can control prices, rates of inflation, money supply, or other components of the economy. It intervenes only in response to the pressure of overriding economic or social needs; it does not protect or subsidize manufactured products.

The aim of the government's fiscal policy is to maintain a balanced budget, and in all but a few years the government has recorded a budget surplus. Its objective in relation to monetary policy is to provide a favourable environment in the financial sector, with sufficient regulation to ensure confidence and sound business practice but with minimal intervention and impediments.

(2) Trend Toward Privatization

State ownership in Hong Kong is minimal. The majority of public utilities in Hong Kong such as gas, electricity, and broadcast and transport facilities are privately owned. An increasing trend of privatization has recently occurred in such areas as health care and the water supply.

(3) Regional/Special Industry Development

There is no government policy to encourage regional or special industry development.

(4) Free-Trade Zones

Hong Kong is a free port.

(5) Financial Services

Hong Kong has a sophisticated banking system that provides a full range of financial services. As of August 2005, Hong Kong's banking sector comprised over 180 licensed banks and over 60 deposit-taking banks. In addition, over 160 foreign banks had representative offices in Hong Kong. Because of time differences, business can be conducted in Hong Kong outside of business hours in London and New York. Hong Kong also has an active and soundly regulated stock exchange for raising capital for investment projects.

4.Public/Private Sector Cooperation

There is no formalized process for joint decision making by the public and private sectors. However, the government does consult the private sector on important issues such as the Basic Law. The private sector has organized various lobby groups which attempt to influence public opinion and government policy in a number of areas.

5.Labour/Management Relations

From the viewpoint of the foreign investor, Hong Kong offers a skilled labour force at all levels, although shortages have been experienced in many sectors in recent years. The increasing level of emigration by the middle classes is cause for concern, because it is becoming increasingly difficult to hire and retain experienced staff to fill managerial positions. The unemployment rate in 2005 Hong Kong was about 6 percent.

Generally, the labour force is neither highly organized nor militant. Only a small percentage of the workforce belongs to trade unions.

Fringe benefits can represent a sizable cost of doing business, primarily at the more senior levels. The trend is toward an increase in employee benefit packages, with employers using benefits as incentives to retain key personnel.

6.Overseas Trade Relations

(1) Membership in Trade Blocs

Hong Kong is a separate contracting party to the World Trade Organization (WTO) (formerly the General Agreement on Tariffs and Trade-GATT) and is one of the best examples of WTO principles in action.

The Multi-Fiber Arrangement (MFA), aimed at the orderly development and expansion of international trade in textiles, formerly provided the framework within which Hong Kong negotiated bilateral restraint agreements with textile importing countries (currently Canada, the European Union, Norway, and the United States). However, when the WTO succeeded GATT, the MFA quotas began to be phased out. This will have a profound effect on Hong Kong's textiles and apparel industry, which produces a significant portion of its exports. On the more positive side, Hong Kong stands to benefit from the WTO. This will strengthen and boost confidence in the multilateral trading system, which is based on most-favored-nation status.

(2) Imports

Hong Kong is a free port and imposes no general tariff on imported goods. However, some goods are subject to duty if they are imported into Hong Kong. These goods include alcoholic beverages, tobacco, certain hydrocarbons, and methyl alcohol.

(3) Exports

There are no special incentives for exports. As a free port, Hong Kong keeps its import and export licensing requirements to a minimum. No production or sales taxes are levied in Hong Kong.

(4) Trade Barriers

As a free port, Hong Kong has never erected import barriers, despite periodic trade imbalances and economic setbacks. However, the territory is required to accept increasing restrictions imposed by countries to which it exports, particularly the United States.

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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