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Hong Kong Sole Proprietorship Company Registration

General

A sole proprietorship business is the kind of business that is conducted by one person. The person runs the business on his own without sharing his business with anybody. He gets all the profits of the business, but he also takes up all the risks of the business. Although a sole trader does not have to be responsible to any business partners, he is wholly liable for all the debts incurred in the business.

An investor may consider using sole proprietorship as the device for conducting his business:

- (1) if this is the first time he runs a business;
- (2) if he is thinking of setting up a small business;
- (3) if he wants to make things simple and avoid complicated formalities;
- (4) if he has adequate finance to run the business so that he does not need to get financial assistance, e.g. obtaining a loan from the bank or finding someone to support his business financially; or
- (5) if the business intended is not risky.

Advantages of Sole Proprietorship

If this is the first time an investor runs a business, probably he is thinking of some sort of business that can be easily manageable. He may not want to start business with a lot of complications. Simplicity is the main advantage of sole proprietorship:

- (1) Simple to set up - all the investor needs to do is to apply for a business license from the Business Registration Office. Every person carrying on a business shall make such an application within 1 month of the commencement of such business.
- (2) Easy to make decision - a sole trader does not need to discuss with other people before a business decision is made. As a sole trader is the only boss of the business, he can simply decide in whatever way he likes. He does not need to get approval from his business partners before entering into a contract.

- (3) Efficiency - without the necessity to join with other people in making a decision, a sole trader normally can run his business in an efficient manner. A business decision can therefore be made quickly.
- (4) Profits entitlement - a sole trader does not need to share the profits with other people. He gets all the profits of the business, which provides a good incentive for him to work hard.
- (5) Close relationship with customers - as a sole trader is the sole boss of the business, it is quite often that the sole trader will fully and actively work in the business. In fact, a sole trader has to do so because of his unlimited liability in the business. This develops personal and close contacts with his customers.

Disadvantages of Sole Proprietorship

- (1) Sources of finance - a sole trader, being the sole boss of his business, will have difficulty in sourcing finance. Unless a sole trader himself has adequate finance in setting up and running the business, he needs to be cautious in managing the finance to avoid the occurrence of liquidity problem in the course of business.
- (2) Heavy workload - although a sole trader can make speedy and efficient decision, he also has to make all decisions himself. This makes him very tired because there is no one to share his burden. The situation may even worse if he becomes sick and is unable to take care of his business in a period. There may be some solutions to solve this problem. For example, a sole trader can employ staff to ease his workload and delegate authority to them to make decision on his behalf, but it is still the sole trader himself to shoulder all liability of the business.
- (3) Unlimited personal liability - it is risky to run sole proprietorship business because a sole trader is the only person to be responsible for all liabilities of the business. His liability in the business is unlimited.
- (4) Capital - a sole trader has to contribute all the working capital for setting up the business. There being no other people to share with him. At best, he may borrow some money from his friends or relatives.
- (5) Losses - A sole trader shall bear all the losses resulting from the business. It can be a great psychological pressure on him when the business is slipping down.

Procedure for Setting Up a Sole Proprietorship

An individual who conducts business in Hong Kong as a sole proprietor must register with the Business Registration Office of the Inland Revenue Department within one month of the commencement of business. For details of the required procedures, please browse the website of the Business Registration Office at: <http://www.ird.gov.hk/eng/tax/bre.htm> or contact us at info@kaizencpa.com.

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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