

# Hong Kong: A Gateway for Singapore Entrepreneurs?

The article presents the benefits of doing business in Hong Kong.

The media often paints Singapore and Hong Kong as strategic regional rivals. But in fact, the two economies dominate distinct Asian sub-regions, and businesses can profit by capitalising on the strengths of each.

Since China joined the World Trade Organisation in late 2001, Hong Kong's proximity to the Mainland's key export-manufacturing zones, together with increased worldwide scrutiny of international financial services, have allowed it to emerge as a leading offshore centre. Singapore entrepreneurs can often benefit by using Hong Kong as a gateway for their trading business in China.

## Hong Kong: Next-door to the World's Factory

Since its reunification with China six years ago, Hong Kong has repeatedly proven its economic resiliency in the face of adverse international circumstances. In 1998, it weathered the Asian financial crisis without devaluing its currency. Then, it survived boom and bust in the tech sector, only to see the global downturn of 2001 drag it back into recession. And despite SARS, Hong Kong's export results have remained robust, spurring hopes of renewed economic growth in the near future.

Hong Kong is continually reinventing itself to stay competitive as a services hub for the Pearl River Delta region across its border. On 29 June 2003, Hong Kong and China signed a Closer Economic Partnership Arrangement ('CEPA'), which eliminates most of China's tariffs on goods manufactured in Hong Kong and gives special market-access concessions

to services firms domiciled in Hong Kong. The border between China and Hong Kong is already open 24 hours a day and procedures for moving goods back and forth will be eased further under the terms of the CEPA.

Hong Kong has accumulated a wealth of professional expertise with regard to doing business in China over the past 25 years. Many Singapore entrepreneurs speak Cantonese and enjoy a cultural affinity with their Hong Kong counterparts that can help them tap into this expertise through their activities in Hong Kong.

## Stability in an Insecure World

Transparency is a central component in Hong Kong's solid and well-regulated banking and financial sectors. This has been especially important since the events of 11 September 2001, as international financial centres — especially those that handle large volumes of external transactions — have come under increasing scrutiny.

The international commitment to halt the funding of terrorists has revitalised the Financial Action Task Force's ('FATF') anti-money laundering mandate. The FATF has pressured most offshore jurisdictions to strengthen their legislation, paying special attention to those that allow the incorporation of brass-plate banks and companies. During this period of scrutiny, Hong Kong's solid regulation and commercial credibility have distinguished it as a model offshore centre. It served as president of the FATF in 2001–2002, and, like Singapore, has never appeared on any FATF black list.

Hong Kong and Singapore consistently top international lists of the world's freest

economies. Hong Kong's commercial stature is further enhanced by the fact that corporate profits from international business can often be legally exempted from tax, thanks to a simple tax regime that focuses on a smaller tax base than Singapore's.

## The Undiscovered Offshore Centre

Hong Kong offers the exceptional circumstance of a commercially advanced environment where taxes can be greatly minimised and, in many cases, completely eliminated. The tax system is very simple, with no capital gains tax, dividend withholding tax nor VAT. The profits tax rate is a flat 17.5% and is based on the source of the transaction, not the domicile of the company. Transactions deemed to have an offshore source are not subject to profits tax even if the order is booked and the funds received in Hong Kong. International transactions can thus be structured through a Hong Kong company such that they are tax-neutral. The profits can then be invested or remitted elsewhere, with no withholding tax.

Since Hong Kong is a low-tax, rather than a no-tax, jurisdiction, it has not become the target of 'unfair tax competition' complaints by the United States, the European Union or the Organisation for Economic Co-operation and Development. Nonetheless, business can be conducted in Hong Kong tax-free, and because it is such an active commercial hub, its companies and banks are held in high regard internationally.

An additional benefit for Singapore entrepreneurs is the advantage Hong Kong has as a flexible and well-regulated



offshore jurisdiction in the same time zone as Singapore, so that business can be carried out during their regular working hours. This makes Hong Kong perfect for Singapore-based traders buying from the region, exporters seeking new markets or those requiring sophisticated banking structures.

## Financial Services

At the beginning of 2003, Hong Kong had 133 licensed banks, 46 restricted licence banks, 45 deposit-taking companies, as well as representative offices for 94 additional foreign banks. Interests from 37 countries beneficially owned these institutions, which included 73 of the world's 100 largest banks.

Due to the large number of participants, Hong Kong's banking sector possesses a broad range of expertise. Hong Kong's roots as an international commercial centre have ensured that its banks are well versed in all aspects of trade finance. Project finance is also a major strength, as a result of the funding requirements for deals in China. Because the banking sector is so competitive, companies can often get credit on better terms than are normally available in many other countries.

## Company Formations

Hong Kong has only one kind of company — there are no exempt or

non-resident corporations — which can be incorporated in about one week. Hong Kong companies may have corporate shareholders and directors, with no residency requirements. They do, however, require a registered office in Hong Kong and a company secretary that is a Hong Kong resident or company. Hong Kong companies are required to file an annual return that lists, among other things, the shareholders, directors, company secretary and location of the registered office. As this is a public record, many business people engage local service providers to act as nominee shareholders, directors and company secretaries.

An active Hong Kong company is required to submit audited accounts to its shareholders and file those accounts with the Inland Revenue Department each year. A detailed Companies Ordinance governs how Hong Kong companies are managed and there are adequate safeguards for minority shareholders and creditors.

## Advantages for Singapore Entrepreneurs

Like Hong Kong, Singapore has a territorial tax system. But income received in Singapore from offshore transactions is nonetheless considered chargeable income, whereas in Hong

Kong it would be exempt from profits tax. By establishing a Hong Kong company as an intermediary, a Singapore trading firm may be able to accumulate profits tax-free in Hong Kong. If the sales contract is negotiated in either China or Singapore and the goods are shipped directly, the transaction should be deemed 'offshore' and not subject to Hong Kong profits tax. The Hong Kong company could then use these profits for investment or to finance future trade.

Though the same result can be achieved with an offshore company in any number of jurisdictions, Hong Kong's reputation as a commercial centre adds credibility to the company's business and helps it to expand its market. Also, because the Hong Kong company's accounts are audited, once it builds a track record in Hong Kong, it may be able to obtain credit at a lower cost than it could otherwise.

Hong Kong serves as an ideal corporate headquarters for business in China. The government has devoted millions of dollars to attracting foreign companies to Hong Kong. Invest Hong Kong and the Trade Development Council both offer extensive business-matching services, along with a variety of advice and assistance to reduce the cost and risk of establishing a presence in Hong Kong.

By basing their China operations in Hong Kong, Singapore and foreign entrepreneurs obtain better access to Chinese vendors and to the local firms' extensive experience working with factories on the Mainland. As the China-Hong Kong border continues to loosen over time, they can save time and money in transport. At the same time, they can take advantage of Hong Kong's world-class banking system, its straightforward company law and a tax system tailor-made for international business.

**Elizabeth L. Thomson**  
*ICS Trust (Asia) Limited*  
E-mail: [ics@icstrust.com](mailto:ics@icstrust.com)