

Investment Climate Statement

Hong Kong

March 2024

Mizuho Bank, Ltd

Global Strategic Advisory Department

Mizuho Research & Technologies, Ltd.

Research Division



Innovating today. Transforming tomorrow.

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I . Basic Information

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I-1. Key Economic Indicators for Asia

Country/Region	Hong Kong	Mainland China	South Korea	Singapore	Indonesia	Vietnam
Population (millions)	7.5	1,411.4	51.6	5.7	277.4	100.4
Nominal GDP (US\$100 million)	3,855	177,009	17,092	4,973	14,174	4,334
Real GDP growth rate (y-o-y, %)	4.4	5.0	1.4	1.0	5.0	4.7
GDP per capita (US\$)	51,168	12,541	33,147	87,884	5,109	4,316
Estimated GDP growth rate (2024, %)	2.9	4.2	2.2	2.1	5.0	5.8
Credit rating (S&P) as of Sep 2023	AA+	A+	AA	AAA	BBB	BB+
Country/Region	The Philippines	Thailand	Malaysia	Myanmar	Cambodia	India
Population (millions)	112.9	70.2	33.1	54.2	16.2	1,428.6
Nominal GDP (US\$100 million)	4,357	5,122	4,309	749	309	37,322
Real GDP growth rate (y-o-y, %)	5.3	2.7	4.0	2.6	5.6	6.3
GDP per capita (US\$)	3,859	7,298	13,034	1,381	1,916	2,612
Estimated GDP growth rate (2024, %)	5.9	3.2	4.3	2.6	6.1	6.3
Credit rating (S&P) as of Sep 2023	BBB+	BBB+	A-	N/A	N/A	BBB-

Note 1: Data are for 2023; estimated GDP growth rates are for 2024, and italicized data are IMF estimates.

S&P rating criteria:

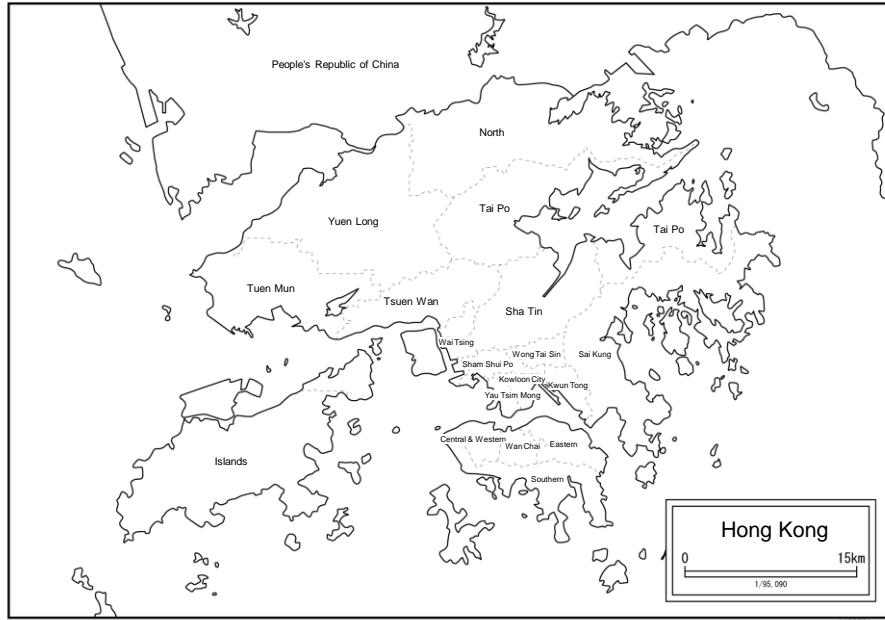
A: An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories .

BBB: An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB: An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitments.

Note 2: As of September 30, 2023, for the S&P credit rating

Source: Compiled by MHBK's Global Strategic Advisory Dept. based on the IMF's World Economic Outlook Database October 2023 Edition and S&P's website.



Basic data

Population	Approx. 7.5 million (in 2023, Census and Statistics Dept. of Hong Kong SAR)
Area	Approx, 1,110 km ² (about half the size of Tokyo)
Language	Cantonese, English, Mandarin (2021, Census and Statistics Dept. of Hong Kong SAR)
Ethnicities	Chinese (92%) (2021, Census and Statistics Dept. of Hong Kong SAR)
Religions	Buddhism, Taoism, Christianity, etc. (2022, Ministry of Foreign Affairs of Japan)
Currency	Hong Kong dollar
Politics	Hong Kong Special Administrative Region of the People's Republic of China Chief Executive: John Lee Parliament: Legislative Council
GDP	Nominal: US\$385.5 billion; per capita: US\$51,168 (FY2023, IMF)
Real GDP growth rate	3.2% (2023, Census and Statistics Dept. of Hong Kong SAR)
Major industries	Finance, real estate, tourism, and trade

Overview

- The official name of the region is "Hong Kong Special Administrative Region of the People's Republic of China."
- Hong Kong was a British colony until 1997 but was returned to Mainland China on July 1 of that same year. Traditional governance will continue for 50 years under the "one country, two systems" framework (but will change to a "one country, one system" framework in 2047).
- Growth is achieved via a laissez-faire economic policy (positive non-interventionism by the government).
- The legal system was established based on the "Basic Law of the Hong Kong Special Administrative Region," which follows common law. Foreign and military affairs are the responsibility of the Chinese central government.

Source: Compiled by MHBK's Global Strategic Advisory Dept. based on materials from the Ministry of Foreign Affairs, JETRO, and IMF

I-2. Basic Data and Overview (2)

One of Asia's leading international cities, with more than 90% of the economy in the tertiary (service) industry

- Leading financial center in Asia (No. 4 in the Global Financial Centres Index in September 2023)
- Logistics hub of Asia (9th in the world in terms of container volume in 2021)

Preferential corporate tax regime

- Low income tax rates for corporations (8.25% or 16.5%) and individuals (2% to 17% progressive rate)
- Zero taxation on dividends, capital gains, interest income, and customs duties (with some exceptions)
(foreign source income tax exempt if all requirements met)

High real estate prices

- Rents for offices, stores, and residences among the highest in the world

RMB offshore center

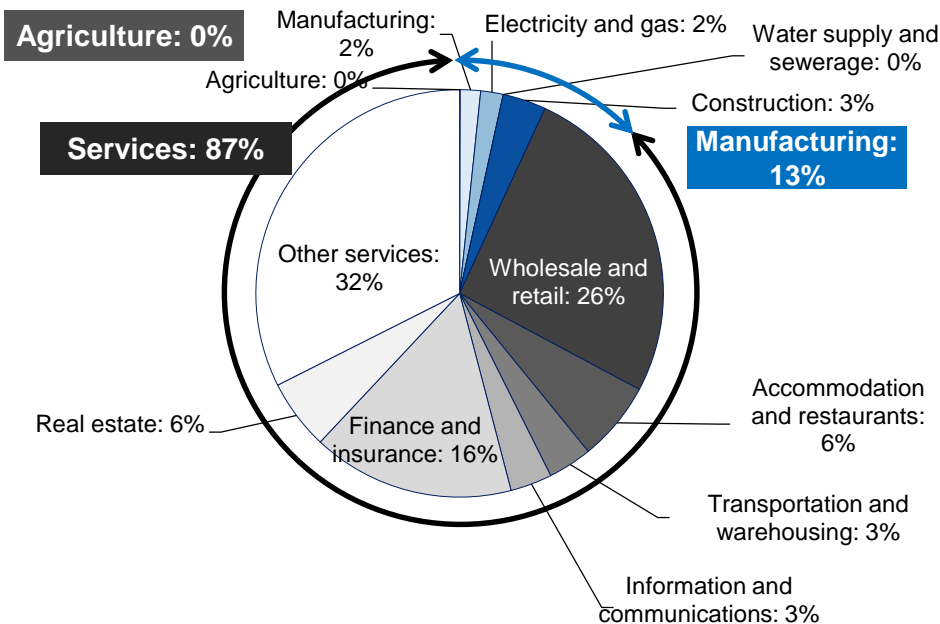
- Enjoying a first-mover advantage in RMB deregulation
- Only region outside of Mainland China where RMB payments, investments, and procurement are almost fully liberalized

I-3. Economic Structure (Industry/Trade) (1): Industrial Characteristics

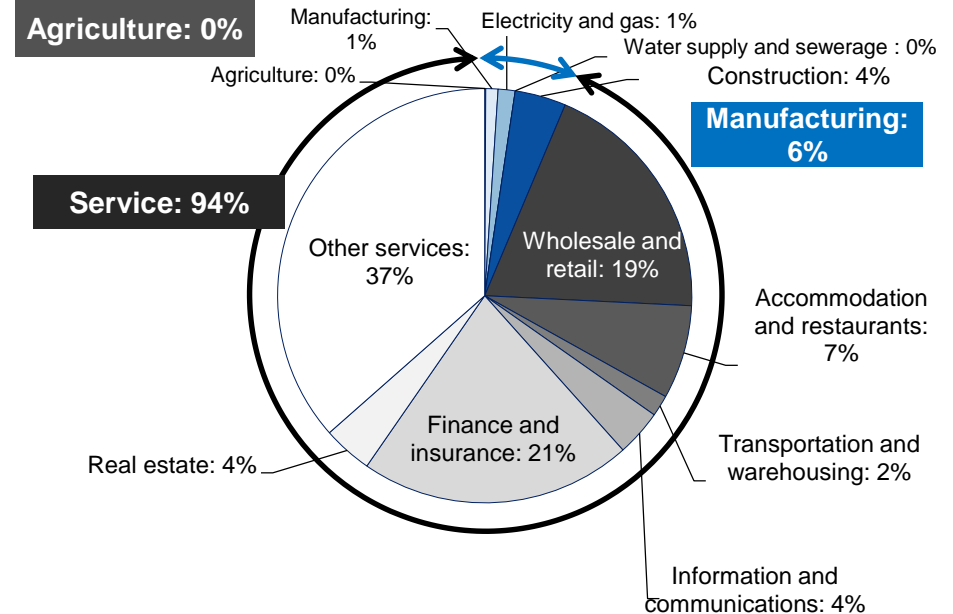
- The services sector accounts for more than 90% of value added. The shares of wholesale/retail trade and finance/insurance are particularly high.
- The share of manufacturing is extremely low. Agriculture is almost non-existent.

GDP composition by industry (comparison of 2011 and 2022)

2011



2022



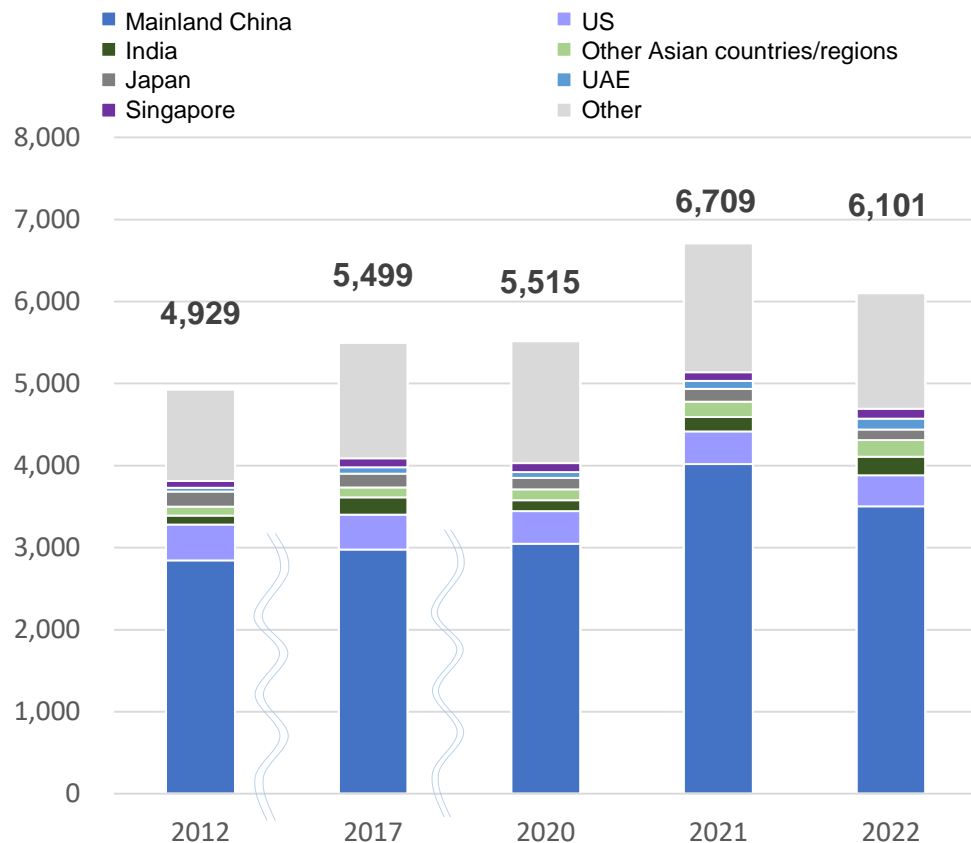
Source: Compiled by Mizuho Research & Technologies based on the ADB Key Indicators

I-3. Economic Structure (Industry/Trade) (2): Trend of Export Values

- By country/region, Mainland China accounts for more than half of Hong Kong's total exports.
- The main export items are machinery, precision instruments, and electrical machinery. Re-exports account for more than 98% of exports, reflecting Hong Kong's unique export profile.

Trend of exports by region

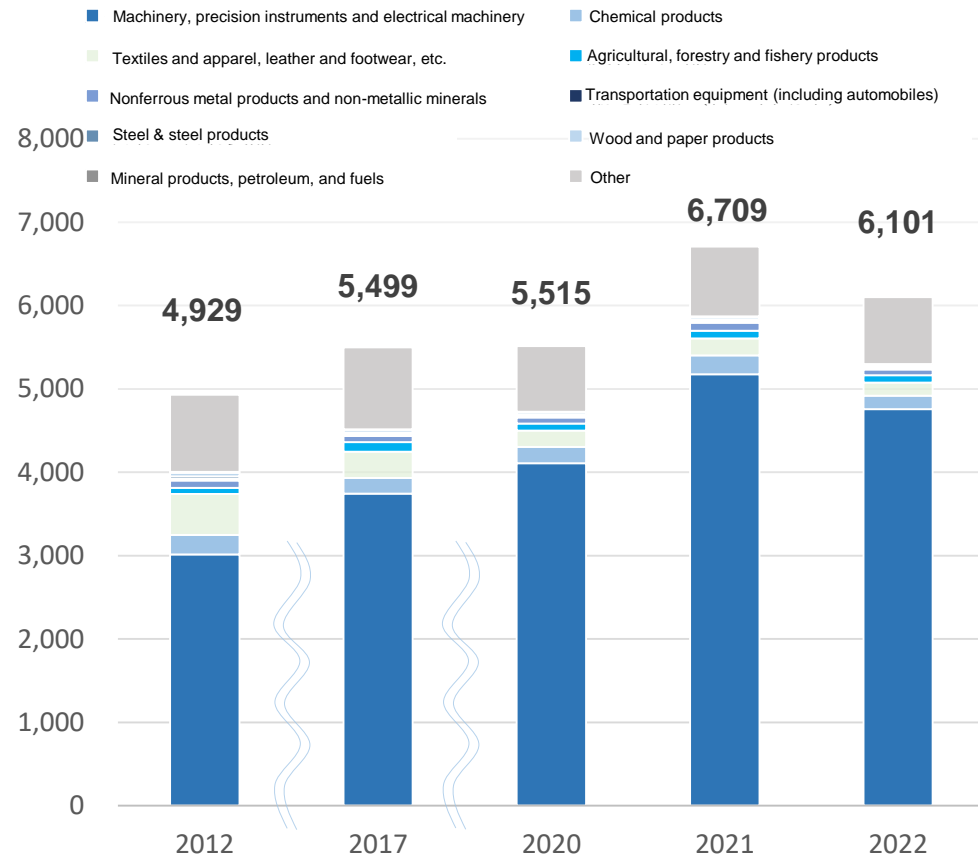
(USD 100 million)



Note 1: "Other Asian countries/regions" represents the total trade value of countries/regions that are not separately aggregated in the source data, including Taiwan.

Trend of export value by product category

(USD 100 million)



Note 2: Export item classification is based on the two-digit HS code classification.

Source: Compiled by Mizuho Research & Technologies and MHBK's Global Strategic Advisory Dept. based on materials from UN Comtrade

(Reference) Breakdown of Export Values (by Country/Region and Export Item Category)

Strictly Confidential

Export breakdown (by country/region and export item category)

(USD 100 million)

	Agricultural, forestry and fishery products	Mineral products, petroleum, and fuel	Chemical products	Wood and paper products	Fibers & textiles, clothing, leather, footwear, etc.	Steel and steel products	Non-ferrous metal products and non-metallic minerals	Machinery, precision instruments, electrical machinery	Transportation equipment (including automobiles)	Other	Country/Region Total (USD 100 million)
Mainland China	64.8%	51.2%	64.6%	26.1%	24.9%	41.3%	73.7%	60.7%	35.0%	42.2%	3,504
US	1.9%	2.8%	4.2%	15.7%	14.9%	4.6%	3.6%	5.5%	8.2%	9.6%	380
India	0.3%	0.5%	1.1%	2.0%	0.8%	2.8%	1.1%	3.1%	0.6%	9.1%	225
Other Asian countries/regions	4.3%	3.4%	2.0%	1.4%	3.5%	3.2%	1.9%	3.4%	1.8%	3.0%	201
Japan	0.9%	12.4%	1.9%	1.7%	3.4%	1.5%	1.4%	2.2%	6.2%	1.8%	131
UAE	0.3%	0.2%	0.3%	0.4%	1.0%	0.2%	0.1%	2.1%	1.1%	3.6%	130
Singapore	1.5%	2.0%	1.5%	1.1%	1.6%	0.7%	0.5%	1.7%	4.0%	4.2%	122
Other	25.9%	27.5%	24.3%	51.6%	49.9%	45.8%	17.6%	21.3%	43.1%	26.7%	1,408
Export items total (USD 100 million)	86	8	160	17	157	18	72	4,759	20	802	6,101

Note 1: Percentage of each export item category by export destination country/region; the cells with the highest percentage are shown in blue.

Note 2: "Other Asian countries/regions" represents the total trade value of countries/regions that are not separately aggregated in the source data, including Taiwan.

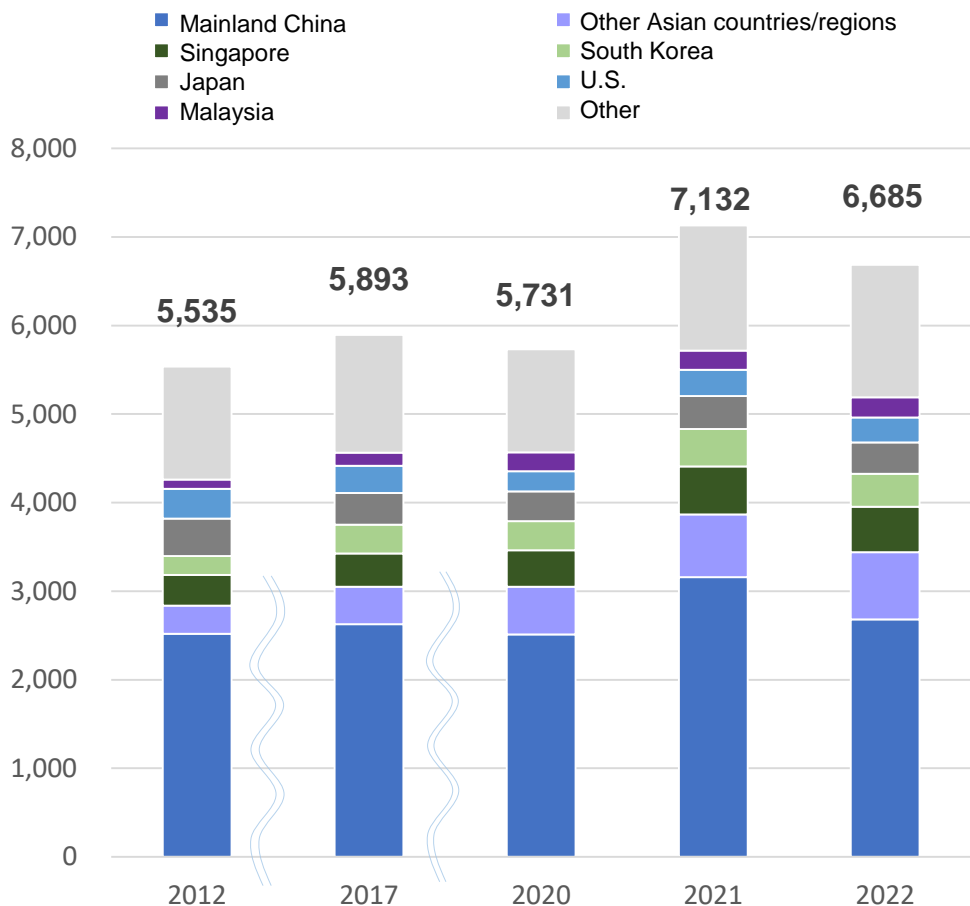
Export item classification is based on the two-digit HS code classification.

Source: Compiled by Mizuho Research & Technologies and MHBK's Global Strategic Advisory Dept. based on materials from UN Comtrade

I-3. Economic Structure (Industry/Trade) (3): Trend of Import Values

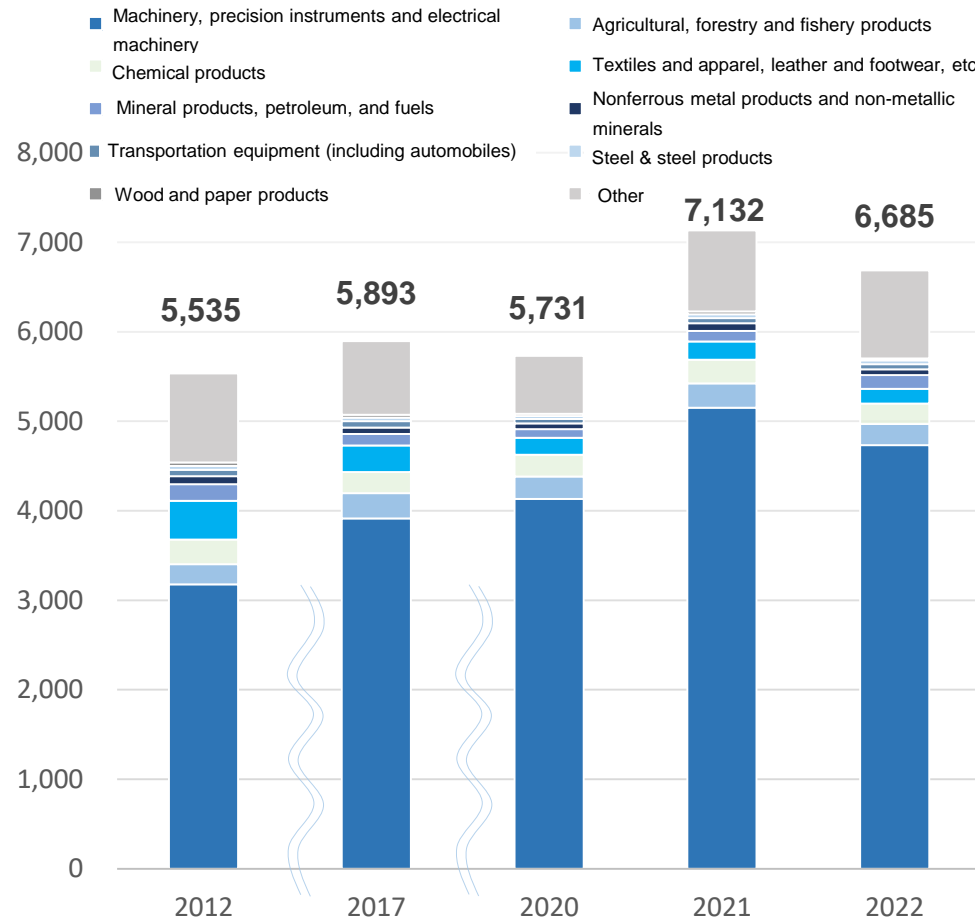
- The main import items are machinery, precision instruments, and electrical machinery. These products are consumed domestically and are re-exported to third countries and regions.
- By country/region, Mainland China and other countries/regions including Taiwan account for more than half of total imports, followed by Singapore, South Korea, and Japan.

Trend of imports by region (USD 100 million)



Note 1: "Other Asian countries/regions" represents the total trade value of countries/regions that are not separately aggregated in the source data, including Taiwan.

Trend of import value by product category (USD 100 million)



Note 2: Import item classification is based on the two-digit HS code classification.

Source: Compiled by Mizuho Research & Technologies and MHBK's Global Strategic Advisory Dept. based on materials from UN Comtrade

(Reference) Breakdown of Import Values (by Country/Region and Import Item Category)

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Import breakdown (by country/region and export item category)

(USD 100 million)

	Agricultural, forestry and fishery products	Mineral products, petroleum, and fuel	Chemical products	Wood and paper products	Fibers & textiles, clothing, leather, footwear, etc.	Steel and steel products	Non-ferrous metal products and non-metallic minerals	Machinery, precision instruments, electrical machinery	Transportation equipment (including automobiles)	Other	Country/Region Total (USD 100 million)
Mainland China	33.5%	47.4%	26.1%	70.9%	47.1%	45.0%	45.5%	44.2%	32.4%	22.1%	2,680
Other Asian countries/regions	1.9%	2.2%	4.7%	2.8%	1.8%	4.1%	3.6%	15.0%	1.1%	2.1%	758
Singapore	1.8%	14.8%	5.4%	0.7%	0.8%	1.2%	1.1%	9.5%	2.6%	2.0%	515
Korea	1.9%	7.5%	18.4%	2.3%	2.8%	2.0%	7.9%	6.1%	4.2%	1.2%	373
Japan	7.1%	2.9%	10.2%	4.8%	2.3%	6.9%	9.0%	4.6%	12.0%	7.3%	353
US	6.7%	0.1%	9.3%	3.9%	1.6%	1.6%	9.5%	3.4%	5.3%	7.3%	282
Malaysia	1.2%	8.9%	1.2%	1.1%	0.3%	10.4%	1.8%	4.2%	0.8%	0.2%	226
Other	45.9%	16.3%	24.7%	13.4%	43.4%	28.8%	21.5%	13.0%	41.7%	57.6%	1,496
Import items total (USD 100 million)	237	152	231	24	163	43	65	4,731	57	982	6,685

Note 1: Shows the percentage of each product category by import partner country/region. Blue cells for the highest percentage of countries.

Note 2: "Other Asian countries/regions" represents the total trade value of countries/regions that are not separately aggregated in the source data, including Taiwan.

Import item classification is based on the two-digit HS code classification.

Source: Compiled by Mizuho Research & Technologies and MHBK's Global Strategic Advisory Dept. based on materials from UN Comtrade

- **Service-driven economic structure**
- **Finance and trading have grown as major industries, taking advantage of a geographic location in the heart of Asia and advanced infrastructure.**

Main industries

Finance and insurance

- Established a position as an international financial center
 - ✓ Developed into one of the largest international financial centers in Asia, along with Tokyo and Singapore
 - ✓ Low corporate tax rates, few regulations, a sophisticated legal system, and advanced infrastructure have supported the region as a financial center.
 - ✓ In particular, the importance of the stock market as a base for Mainland Chinese companies to raise foreign currency is prominent.

Trade and marine transportation

- Traditional main industry, as a city thriving on a free port since colonial period
 - ✓ Transit trade is the mainstream of the trade industry.
 - ✓ Offshore trade, in which cargo does not pass through the country/region but only through document inspection and payment, is also active.
 - ✓ In addition to trading and shipping companies, many manufacturers have set up bases in Hong Kong to manage their trading and logistics functions.

Tourism-related (retail, restaurants, accommodation, etc)

- Annual visitors reached a record high of 60 million in 2018. Although the number declined since then due to large demonstrations and the COVID-19 pandemic, it recovered to 34 million in 2023.
 - ✓ Blessed with tourist attractions such as million-dollar night views, high-end Cantonese cuisine, and Hong Kong Disneyland
 - ✓ Emerging as an easy-to-visit destination from Mainland China with the buoyant Chinese economy
 - ✓ Also known as the site of many international conventions

Real estate

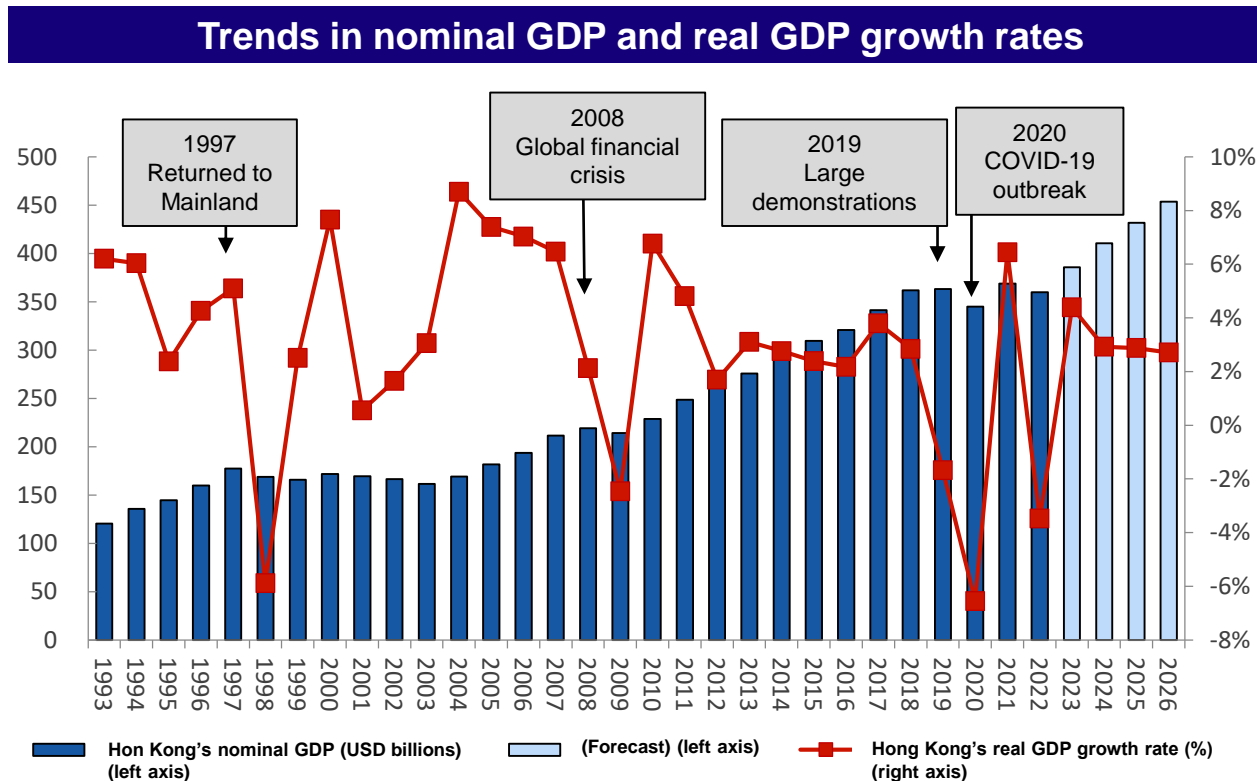
- Entered by a large number of *zaibatsu*-affiliated companies
 - ✓ The real estate market is expected to remain sluggish due to a combination of unfavorable factors, including high interest rates and a decline in the local population due to tighter regulations during the COVID-19 pandemic.
 - ✓ There has been notable activity by *zaibatsu*-affiliated companies, which are also expanding into real estate development in Mainland China.

Source: Compiled by MHBK's Global Strategic Advisory Dept.

I-5. Economic Environment : Mid- to Long-term Growth Trends

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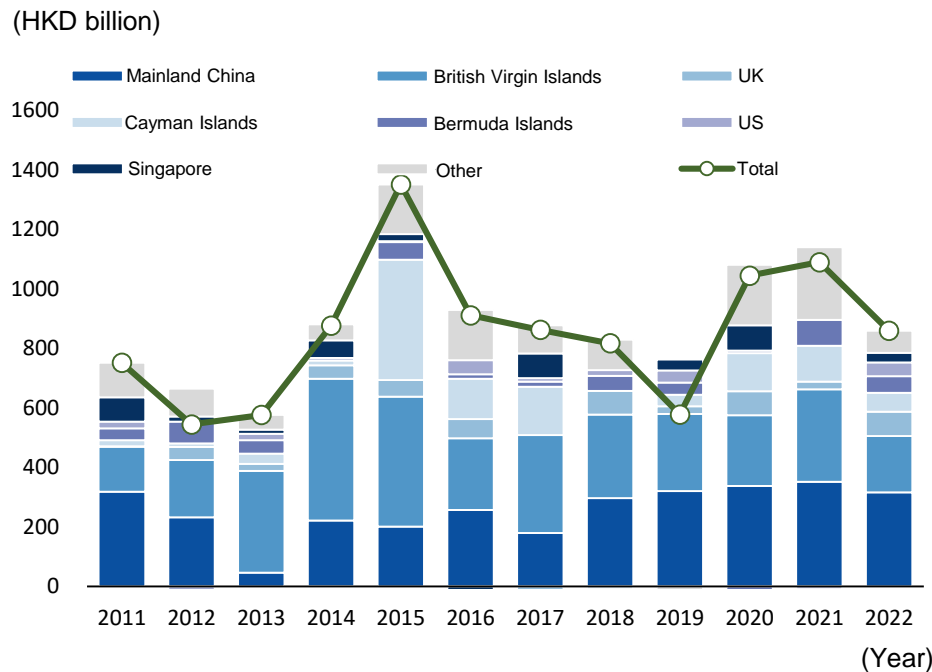
- Hong Kong was returned to Mainland China on July 1, 1997. The economy generally grew steadily until 2018, overcoming difficulties such as the Asian financial crisis that immediately followed after the return to Mainland China, the bursting of the IT bubble (2001), Severe Acute Respiratory Syndrome (SARS, 2003), and the global financial crisis (2008 and 2009).
- In 2003, the Closer Economic Partnership Arrangement (CEPA) was signed with Mainland China. Since then, closer economic ties between Hong Kong and Mainland China have been a major driver of economic growth, including transit trade with the mainland, an influx of mainland tourists, and the listing of mainland companies on the Hong Kong Stock Exchange. The growth rate has been gradually recovering, although it has been slowed by a declining birth rate and an aging population, as well as mass demonstrations in 2019 and the spread of COVID-19 in 2020.



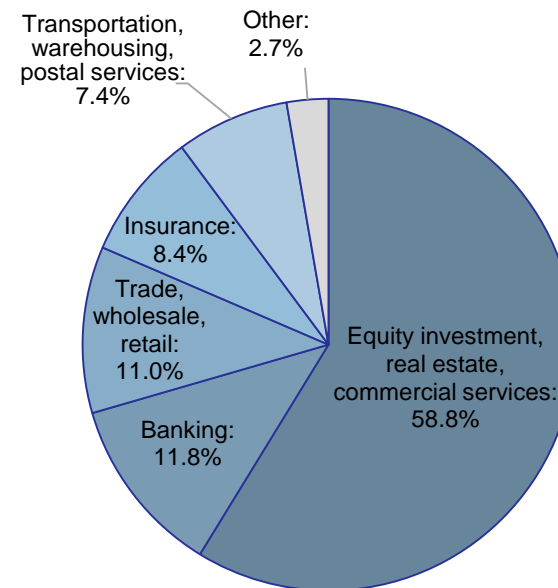
Source: Compiled by MHBK's Global Strategic Advisory Dept. based on materials from the IMF's World Economic Outlook Database, October 2023 Edition

- Inward foreign direct investment (FDI) flows by country/region are dominated by Mainland China, tax havens, etc.
- FDI flows by industry are dominated by equity investment, real estate, and commercial services, followed by banking, trade, and wholesale and retail.

Direct investment flow (trends by country/region)



Breakdown of direct investment flow by industry (2022)

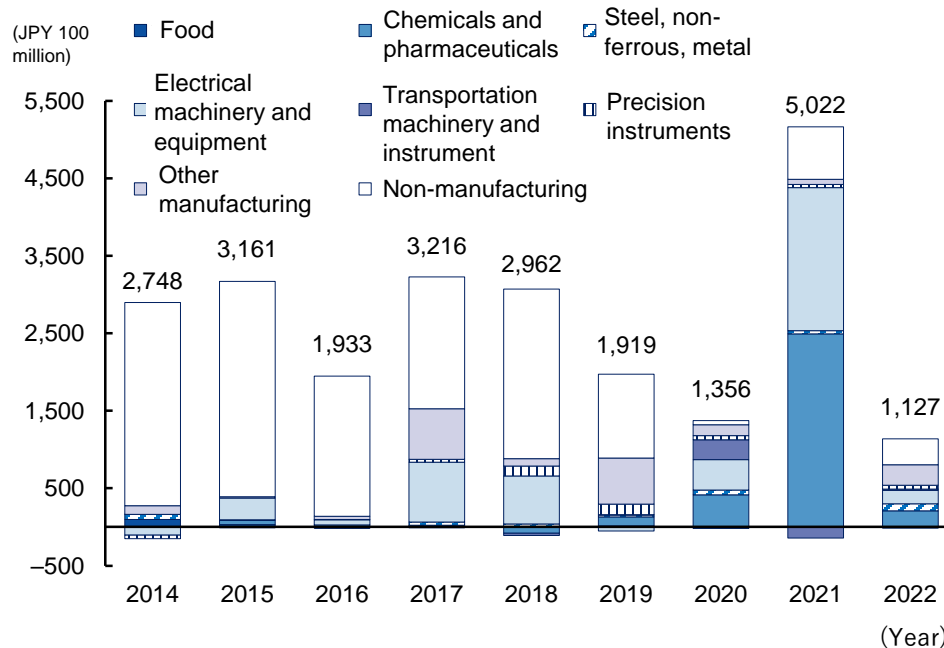


Source: Compiled by Mizuho Research & Technologies based on materials from the Census and Statistics Dept. of Hong Kong SAR

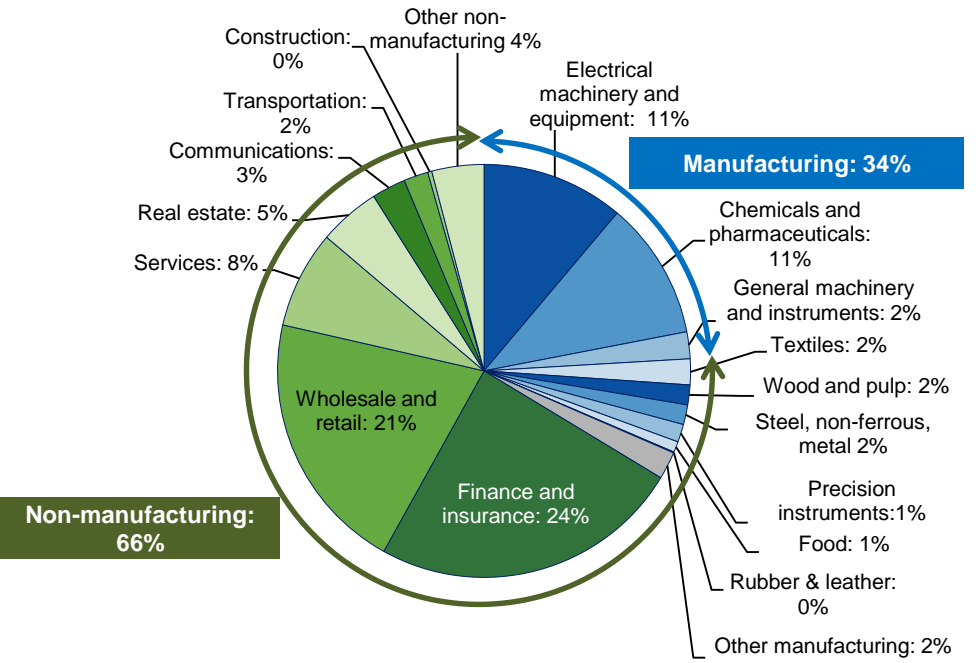
I-6. Direct Investment Trends (2): Investment from Japan

- Although non-manufacturing industries are the main area of direct investment, the weight of electrical machinery and equipment and other manufacturing industries has been increasing since 2017.
- The finance and insurance and wholesale and retail trade sectors account for the largest share of the FDI balance.

Trend of direct investment flow from Japan to Hong Kong



FDI balance from Japan to Hong Kong (breakdown by industry, 2022)



Source: Compiled by Mizuho Research & Technologies based on materials from the Census and Statistics Dept. of Hong Kong SAR

I-6. Direct Investment Trends (3): Status of Foreign-affiliated Companies Entering the Hong Kong Market

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- **Number of foreign-affiliated companies increases for the first time in 4 years**
 - The number of foreign-affiliated companies, including those based in Mainland China, exceeded 9,000 for the first time in two years, reaching 9,039 as of June 1, 2023.
 - Mainland China-based companies continued to be the largest in the list with 2,177 companies, up 63 companies, followed by Japan (1,403 companies, up 15 companies) and the U.S. (1,273 companies, up 15 companies). While the number of European companies in Hong Kong is declining, the presence of Mainland Chinese companies is becoming more prominent.
- **Number of regional headquarters and regional offices decreased; by industry, the finance and banking industry decreased.**
 - Among foreign companies, the number of regional headquarters decreased by about 5.3% year-on-year to 1,336, while the number of regional offices decreased by about 3.6% year-on-year to 2,311. By industry, trade and wholesale/retail accounted for about half of the total, followed by finance/banking and professional/commercial services.

Number of foreign-affiliated companies in Hong Kong (by country/region and type, 2023)

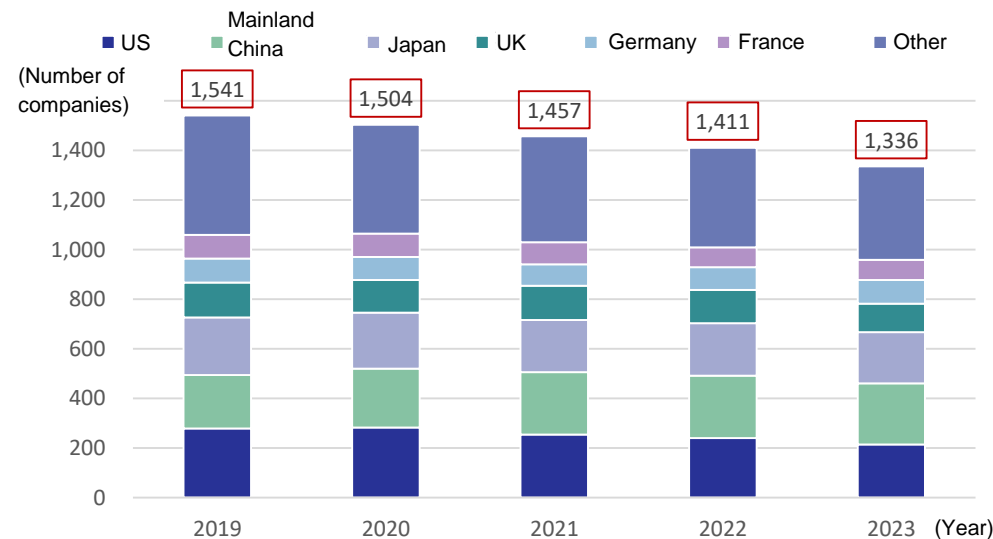
(Number of companies)

Total rank	Country/region	Total	Y-o-y	Regional headquarters		Regional offices		Local offices	
				Y-o-y	Y-o-y	Y-o-y	Y-o-y	Y-o-y	
1	Mainland China	2,177	+ 63	247	- 4	324	- 3	1606	+ 70
2	Japan	1,403	+ 15	206	- 6	411	+ 9	786	+ 12
3	US	1,273	+ 15	240	- 26	419	- 11	640	+ 52
4	UK	641	- 14	134	- 19	196	- 2	330	+ 7
5	Singapore	477	+ 14	42	- 7	94	- 5	341	+ 26
6	Germany	426	+ 2	96	+ 4	133	- 16	197	+ 14
7	Taiwan	364	+ 18	25	+ 1	97	+ 2	242	+ 15
8	France	346	- 19	81	+ 1	100	- 26	165	+ 6
9	Switzerland	260	+ 5	51	- 3	81	- 3	128	+ 11
10	Netherlands	187	+ 2	25	- 3	49	- 3	113	+ 8
	Other	1,485	- 40	189	- 58	407	- 28	844	+ 1
	Total	9,039	+ 61	1,336	- 75	2,311	- 86	5,392	+ 222

Note 1: Figures based on a questionnaire as of June 2023

Source: Compiled by MHBK's Global Strategic Advisory Dept. based on materials from the Census and Statistics Dept. of Hong Kong SAR

Breakdown and trend of the number of regional headquarters



Note 2: The numbers in the square boxes are the total number of regional headquarters.

Source: Compiled by MHBK's Global Strategic Advisory Dept. based on materials from the Census and Statistics Dept. of Hong Kong SAR

- Has established itself as a regional hub for finance, trade, logistics, and information, taking advantage of its geographic location in the heart of Asia and its advanced infrastructure
- High income levels make it a very attractive consumer market. On the other hand, labor costs and real estate rents are high.

Attractiveness in investment	
High economic freedom	Known for its laissez-faire policy; there are no restrictions on foreign investment, in principle.
Center of trade and logistics	A free trade port since the colonial period; currently functioning as the gateway to Guangdong Province
Financial center	Known as a financial hub, especially for stock trading
Sophisticated infrastructure	Has established efficient and innovative industrial infrastructure
Labor force competitiveness	Abundant human resources with a high level of English and high level of education; easy to obtain global human resources locally

Investment considerations (issues)	
Labor cost	Relatively high cost to secure highly skilled labor
Business cost	Business costs are generally high, especially real estate rents, which are among the highest in the world.
High dependence on exports	Economic structure relying heavily on exports
Narrow intra-regional market	Small land area with small population
Dependence on Mainland China's economy	Political and economic integration with Mainland China is progressing; if Mainland China's economy falters, Hong Kong's economy will suffer a serious blow.

Source: Compiled by MHBK's Global Strategic Advisory Dept. based on materials from the Census and Statistics Dept. of Hong Kong SAR

I . Basic Information

II . Investment-related Information

III . Establishing a Local Subsidiary

IV . Regulations etc.

II-1. Tax Regime in Hong Kong

- Typical Hong Kong tax rates are shown at right.
- Under the Hong Kong tax laws, offshore profits and losses (income from business activities outside Hong Kong that is sourced outside Hong Kong), capital gains and losses, and dividends received, etc., are tax-exempt.
- Having a holdings company in Hong Kong also has the advantage of reducing the tax cost of dividends paid by subsidiaries in Mainland China or overseas to a head office in Japan (see below). However, it requires the Hong Kong subsidiary to be a Hong Kong entity (with a resident certificate) and the approval of the Chinese tax authorities.

Typical Hong Kong taxes and their tax rates

- Corporate income tax Corporate tax rate 16.5%*
- Personal income tax 2–17% progressive taxation (Standard: 15%)
- 8.25% preferential tax rate applied to companies with sales of HK\$2 million or less

Concept of non-taxable amounts of dividends from overseas subsidiaries

Holdings company in Japan

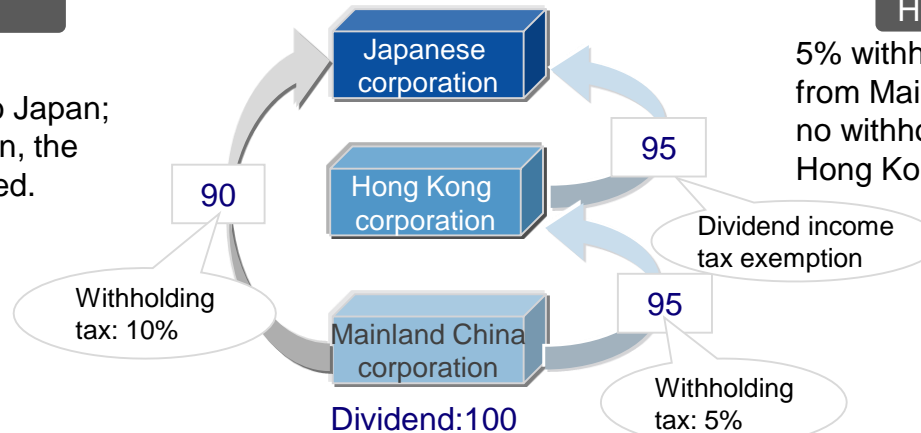
10% withholding tax imposed on dividends from Mainland China to Japan; with no tax-sparing credit in Japan, the 10% tax burden is directly imposed.

$$\begin{aligned} \text{Dividend after tax} &= 90 - (100 \times 5\% \times 30\%) \\ &= \mathbf{88.5} \end{aligned}$$

Holdings company in Hong Kong

5% withholding tax imposed on dividends from Mainland China to Hong Kong, with no withholding tax on dividends from Hong Kong to Japan

$$\begin{aligned} \text{Dividend after tax} &= 95 - (95 \times 5\% \times 30\%) \\ &= \mathbf{93.5} \end{aligned}$$



Conclusion

By investing in Hong Kong, the tax cost can be reduced by 5% of the dividend amount.

Source: Compiled by MHBK's Global Strategic Advisory Dept. and Hong Kong Corporate Banking Dept. No.1 based on materials from the website of Japan's Ministry of Finance

II-1. Tax Regime in Hong Kong (Comparison with Other Countries)

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Item		Hong Kong	Mainland China (excluding some areas)	Singapore
Tax regime	Corporate income tax	8.25% ¹ /16.5%	25%	17%
	Dividend tax	0%	Tax on aggregate income	0%
	Capital gains tax	0%	Tax on aggregate income	0%
	Taxation of interest income	0%	Taxable	0% ²
	Tariffs	0% ³	Taxable	Exempt ⁴
	Consumption tax (value-added tax)	0%	13%, 9%, 6%	7%
	Personal income tax	2–17% progressive taxation	3–45% progressive taxation	2–22% progressive taxation
Withholding tax (against Japan)	Interests	0% ⁵	10%	10%
	Dividends	0% ⁵	10%	0%
	Royalties	4.95% ⁶	10%	10%

Note 1: The tax rate has been reduced for any company that qualifies as a regional financial headquarters. In addition, from FY2018/FY2019, the corporate tax rate has been reduced to 8.25% for the portion of a company's profit of HK\$2 million or less.

Note 2: Interest expense is subject to withholding tax, which may be exempt if a foreign tax credit (FTC) is available.

Note 3: Excise taxes are levied on certain alcohol, cigarettes, etc.

Note 4: Excluding petroleum products, vehicles, alcohol, and tobacco

Note 5: Possibility of taxation if the requirements of the regulations are not met after the 2022 amendment of the Foreign Sourced Income Exemption (FSIE taxation)

Note 6: In the case where the remitter and the recipient are not related parties, 2.475% is applied for corporations, with 2.25% for individuals (where taxable profit is HK\$2 million or lower) . Or, 4.95% is applied for corporations, with 4.5% for individuals (if the said profit exceeds HK\$2 million).

Source: Compiled by MHBK's Global Strategic Advisory Dept. based on various materials

II-2 Investment Cost (Comparison with Other Regions)

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■ Hong Kong and Singapore have higher labor costs and rents compared to Shanghai.

(Unit: USD)

Item		Hong Kong	Shanghai (Mainland China)	Singapore
Manufacturing	Workers' wages (general worker) (monthly)	2,138	832	1,905
	Managers's wages (monthly)	4,889	2,217	4,195
Non- manufacturing	Staff's wages (general level) (monthly)	2,639	1,291	2,692
	Managers' wages (monthly)	4,556	2,625	4,722
Legal minimum wage		5.10/hour	3.34/hour	—
Bonus payments (Fixed bonus + variable bonus)		1.90 months of base salary	2.24 months of base salary	2.54 months of base salary
Social security burden ratio		Employer contribution rate: 5%	Employer contribution rate: 32.66% to 36.02%	Employer contribution rate: 17%
		Employee (own) contribution rate: 5	Employee contribution rate 15.5% to 17.5%	Employee contribution rate: 20%
Nominal wage increase rate		2021: 1.5%	2020: 7.9%	2019: 3.9%
		2022: 2.3%	2021: 10.2%	2020: 1.2%
		2023: 3.0%	2022: 6.9%	2021: 3.9%
Industrial park (land) purchase price (per square meter)		3,451 to 10,981	188 to 208	23 (Changi South) 41 (Ang Mo Kio Industrial Park 2)
Office rent (per square meter, per month)		28 to 375	39	64 to 79
Retail space at city center/showroom rent (per square meter, per month)		247	52	71 to 144
Residential rental fee for expatriates (monthly)		2,550	2,368	2,969 to 11,878

Note: The survey period for each region is Hong Kong (September 2023), Shanghai (Mainland China) (September 2023), and Singapore (December 2022 to January 2023).

Source: Compiled by MHBK's Global Strategic Advisory Dept. based on various materials

I . Basic Information

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■ The following are the types of foreign company operations available in Hong Kong.

	Advantage	Disadvantage
Representative Offices/Liaison Offices	<ul style="list-style-type: none"> ● Expenses in Hong Kong borne by the head office ● No requirement to have accounts audited ● Relatively easy to open and close 	<ul style="list-style-type: none"> ● Sales activities not permitted <ul style="list-style-type: none"> ✓ Not permitted to enter into sales contracts ✓ Only market research and liaison services for the head office are allowed.
Branches	<ul style="list-style-type: none"> ● Sales activities permitted ● No requirement to have accounts audited ● No restriction on execution of contracts 	<ul style="list-style-type: none"> ● Required to file corporate income tax returns ● Annual submission of head office financial statements to the registration office required ● The head office may be a subject in the event of litigation.
Subsidiaries	<ul style="list-style-type: none"> ● Exempt from Japanese taxes Note: However, tax haven taxation may be applied. ● No head office involvement at the time of litigation 	<ul style="list-style-type: none"> ● Required to undergo an accounting audit ● Required to file corporate income tax returns ● Takes a long time to liquidate

Source: Compiled by MHBK's Global Strategic Advisory Dept. based on various materials

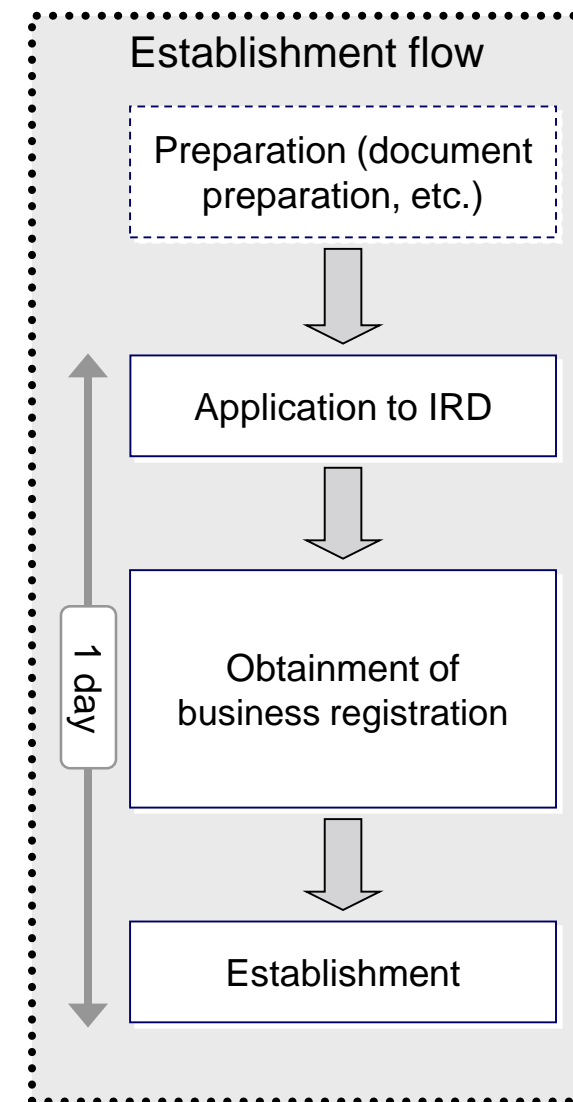
III-2. Flow of Establishing a Representative Office/Liaison Office

- Main documents required
 - ✓ Application form (IRD Form 1B)
 - Address of the Hong Kong office as well as the name and title of the representative
 - Signature of one representative (director/manager/secretary) of the head office
 - ✓ Certificate of incorporation of the head office (certified copy of the register, in the case of Japan) and a certified copy of the English or Chinese translation (signature of the representative of the head office required)
- Government-related expenses
 - ✓ Business registration fee:
HK\$2,150 for a Business Registration Certificate valid for one year
HK\$5,650 for a Business Registration Certificate valid for three years
(Select one of the above.)
- Procedures (see Note 1)
 1. Submit the above application documents to the Inland Revenue Department (IRD) and pay the application fee.
 2. Receive the Business Registration Certificate (BR) (issued on the same day).

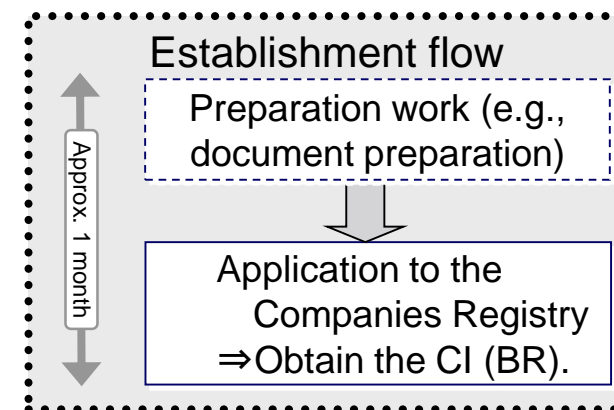
Note 1: Excludes preparation work (e.g., document preparation)

Note 2: Points to consider

- Only business registration with the IRD is required, not with the Companies Registry.
- Business registration fees for representative offices and subsidiaries may vary from year to year.
- An annual tax return is also required for representative offices (declaration of no taxable income).
- For more information on tax reporting, please contact the IRD Company Registration Department.



Source: Compiled by MHBK's Hong Kong Corporate Banking Dept. No.1 based on the materials of the Companies Registry, IRD, etc.



- Main documents required
 - ✓ Application form (Form NN1)
 - ✓ Articles of association of the head office and its English or Chinese translation (Notarization required)
 - ✓ Certified copy of the head office registry and its English or Chinese translation (Notarization required)
 - ✓ Most-recent audited financial statements (consolidated and non-consolidated financial statements) and its English translation (Notarization required)
 - ✓ Notice to Business Registration Office (Form IRBR2)
 - ✓ Others (information on head office directors, branch office representatives, etc.)
- Procedures (see Note 1)
 1. Submit the above application documents to the Companies Registry and pay the application fee.
 - If already in actual operation, registration is required within one month of operation (from opening).
 2. Issue and obtain the Certificate of Incorporation (CI) (comes in approx. 2 weeks)
 - Obtain a Business Registration Certificate (BR) if business registration has not yet been completed.
- Government-related expenses (see Note 2)
 - ✓ Company registration fee: HK\$1,720 (HK\$1,425 will be refunded if the company is not established.)
→ HK\$1,545 for registration for one-stop service (If not established, HK\$1,280 will be refunded.)
 - ✓ Business registration fee: HK\$223 for a Business Registration Certificate valid for one year
HK\$639 for a Business Registration Certificate valid for three years (select either)

Note 1: Excludes preparation work (e.g., document preparation)

Note 2: Paid to the Companies Registry

Note 3: Points to consider

- Under the one-stop service for company registration and business registration, which has been implemented since February 2011, submitting an application for company registration is regarded as submitting an application for business registration at the same time (i.e., no need to submit documents directly to the IRD in the establishment process).
- The above flow is only a rough estimate of the time required for the reference, as it may take time to prepare documents, etc.

Source: Compiled by MHBK's Hong Kong Corporate Banking Dept. No.1 based on the materials of the Companies Registry, IRD, etc.

- There are two methods for establishing a subsidiary in Hong Kong.
 1. New establishment
 - Submit an application directly to the Companies Registry to establish a new legal entity.
 2. Purchase of a shelf company
 - A “shelf company” is a company that has been formed for the purpose of sale and for which the incorporation process has already been completed by the promoter.
 - No concerns about hidden liabilities, etc., since no corporate activities have been conducted since the company's legal incorporation
 - Since there are no pre-defined business positions, basically any business can be conducted.
 - Assignments from accounting firms, etc., may be obtained.
 - Effective when there is no time to establish a new company (as process can be completed in one week at the earliest)

Note: Points to consider

- Costs and time may be incurred for the registration of changes in company name, shareholders, directors, etc.
- At present, under the "one-stop service" for company and business registration, the time required to establish a new company has been shortened. Thus, the "shelf company" purchase method has become less effective.

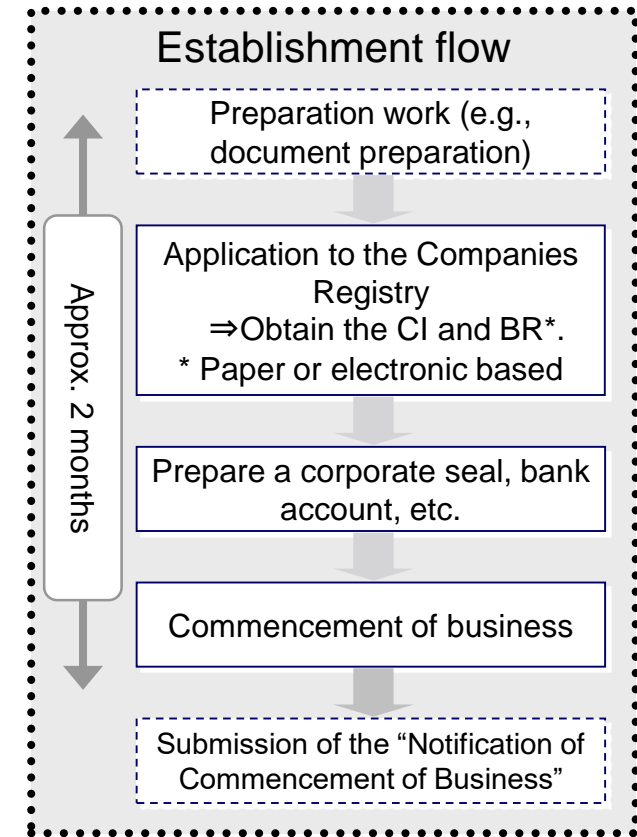
■ Internal decisions on the following basic matters are required before initiating the incorporation application process.

Name of company	<ul style="list-style-type: none"> • An English name is required (and "Limited" must be added at the end of the company name). A Chinese name is not mandatory (but "有限公司" must be added at the end). • A search for similar trade names is required before determining the company name. <ul style="list-style-type: none"> ✓ If, upon application, a company that has already registered a similar trade name challenges the company, or if the Registrar of Companies determines that the trade name is similar, the company may be ordered to change its trade name within one year of the issuance of the Certificate of Incorporation.
Director	<ul style="list-style-type: none"> • At least 1 person for unlisted companies and at least 2 persons for listed companies • No upper limit on the number, nationality, or residency of directors; however, they must be 18 years of age or older. • A legal entity may also serve as a director if it is a private company that is not part of a corporate group, including a public company. However, at least one director must be a natural person shareholder. • Shareholders' approval is required for the employment of any director for more than three years. • The appointment of a managing director is optional. In Hong Kong, it is not a legal position and is only registered as a director in the Companies Registry.
Minimum capital and shareholders	<ul style="list-style-type: none"> • Both unlisted and listed companies must have at least one shareholder, who may also be a director. • The minimum capital is HK\$1.00 (a company can be incorporated with one share held by one person with a capital of HK\$1.00). Generally 1 share = HK\$1. <ul style="list-style-type: none"> ✓ Capital tax (0.1% of authorized capital) payable at the time of registration is exempted from June 1, 2012. • Eliminating the par value of shares and nominal/authorized capital for all incorporated joint stock companies
Company secretary (who prepares, records, and maintains legal documents such as meeting minutes)	<ul style="list-style-type: none"> • The <i>Companies Ordinance</i> of Hong Kong requires the appointment of a company secretary. • The company secretary must be an individual(s) or corporation(s) residing in Hong Kong. This can be outsourced to accounting firms, etc.
Accounting period	<ul style="list-style-type: none"> • For unlisted companies, any accounting year is accepted. However, if they wish to change it, they must explain the reason to the IRD, which is a complicated process. • The deadline for filing tax returns varies depending on the accounting period. Generally, if the account is closed in December, the tax return is due by mid-August of the following year; if the account is closed from January to March, it is due by mid-November of the same year; otherwise, it is due by the end of April of the following year.

Source: Compiled by MHBK's Hong Kong Corporate Banking Dept. No.1 based on public information

III-4. Flow of Establishing a New Subsidiary (2/3)

- Main documents required
 1. Incorporation Form (Form NNC1)
 - The signature of one founder member mentioned on the application form is required.
 - In the case of a director who is a founder member, the signature of the director is required for the “Consent to Act as Director” in the Incorporation Form. (In the case of a director who is not a founder member, the signature is required for the “Consent to Act as Director” in the Incorporation Form or to have consent provided (NNC3) within 14 days of incorporation.)
 2. Copy of the Articles of Association
 - Articles of Association
 - Previously, the articles of association were divided into two parts: Memorandum (the basic articles, containing basic information such as the purpose of incorporation and the amount of capital) and Articles (the general articles, containing the rules of the company). However, with the implementation of the new Companies Ordinance in March 2014, the Memorandum has been abolished, and only the Articles are required.
 - For electronic filing, fill in the form using the online template or attach a self-prepared articles of association.
 3. Notice to Business Registration Office (Form IRBR1)
- Procedures (excluding preparatory work [preparation of application documents, confirmation of the office address etc.])
 1. Search for similar trade names.
 2. Submission of the above documents to the Companies Registry and paying the filing fee
 3. Obtainment of the "Certificate of Incorporation" (CI) and "Business Registration" (BR) (This takes about 4 business days to process a paper-based application and about 1 day to process an electronic application.)
 4. Preparation of a corporate seal and the opening of a bank account
 5. Applying for visas for branch managers, temporary employees, etc., and hiring staff
 6. Submission of the "Notification of Commencement of Business by Corporation" (IRBR200) to the IRD within one month of commencing business



Source: Compiled by MHBK's Hong Kong Corporate Banking Dept. No.1 based on based on the materials of the Companies Registry, IRD, etc.

- Government-related expenses: Paid to the Companies Registry
 - ✓ Company registration fee: HK\$1,720 (HK\$1,425 is refunded if the company is not established.)
→ HK\$1,545 for registration as per the one-stop service (If not established, HK\$1,280 will be refunded.)
 - ✓ Business registration fee: HK\$2,150 for a Business Registration Certificate valid for one year
HK\$5,650 for a Business Registration Certificate valid for three years
(select either)

- Electronic registration
 - ✓ Online application available with free registration at “注册易” (www.eregistry.gov.hk)
 - Electronic application is only allowed for the establishment of subsidiaries in Hong Kong (not allowed for the establishment of a branch or representative office).
 - ✓ For electronic applications, CIs and BRs are issued electronically and can be obtained in one day.
 - Certificates (CI, BR, etc.) to be obtained as needed after incorporation will also be in electronic format. If paper-based certificates are required, they can be obtained for a fee.
 - ✓ Signatures of directors and applicants can be submitted in electronic signature format. This saves time and effort.

Note: Points to consider

- Under the one-stop service for company registration and business registration, which has been implemented since February 2011, submitting an application for company registration is regarded as submitting an application for business registration at the same time (i.e., no need to submit documents directly to the IRD in the establishment process).
- The flow in the previous page is only a rough estimate of the time required for the reference, as it may take time to prepare documents, etc.

Source: Compiled by MHBK's Hong Kong Corporate Banking Dept. No.1 based on based on the materials of the Companies Registry, IRD, etc.

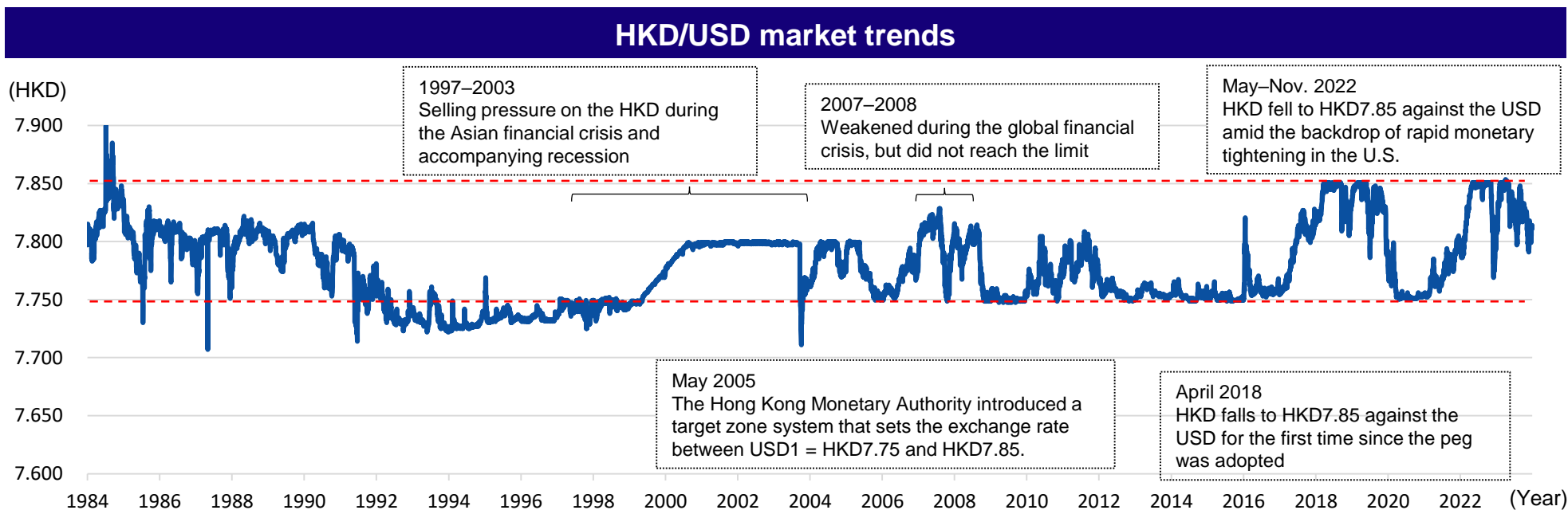
I . Basic Information

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- The legal tender in Hong Kong is the Hong Kong dollar (HKD). There are no restrictions on taking this currency over the border, making it a freely circulating currency.
- The dollar peg system was adopted in October 1983, and in 2005, the Hong Kong Monetary Authority (HKMA), which is both the monetary authority and the de facto central bank of Hong Kong, adopted a target zone system. Since then, the HKD has been allowed to float between 7.75 and 7.85 against the U.S. dollar (USD). Hong Kong's dollar peg is a currency board system, meaning that the HKMA holds the amount of USD that corresponds to the local currency in circulation in the region.
- In 2022, the HKMA intervened to buy HKD for the first time in three years to maintain the peg. This was due to strong selling pressure on the HKD, as the interest rate differential between the USD and HKD widened due to the rapid interest rate hikes by the U.S. Federal Reserve Board (FRB). In Hong Kong, current interest rates have been rising and its currency has been appreciating in line with that of the U.S.



Source: Compiled by MHBK's Global Strategic Advisory Dept. based on info from the Hong Kong Monetary Authority

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