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# Metapro Associates Limited

Management & Accounting Professional

Member of MA Group

## Useful Information for Starting the business in Hong Kong

Date : 1<sup>st</sup> April 2015

Presented by:

**Metapro Associates Limited**

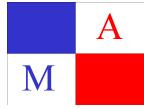
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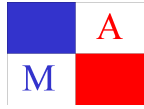


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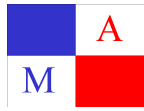
## **Introduction**

We, Metpro Associates Limited, are the corporate member of Hong Kong General Chamber of Commerce. We provide the services of Company Formation, Accounting, Tax Planning, Tax Filing and Full Corporate Services. We also provide the Registered Office, Virtual Office, Nominee Shareholder, Nominee Director for our overseas clients. With the provision of Trade Services, we can assist our overseas clients to develop their business in Hong Kong and Great China Region.

We are also one of the Local Partners, of doing the business project of the World Bank Group. She is the leading organization of providing the up-dated information of doing business in any party of the world. We are proud to be the local partner of the Organization of providing the professional knowledge in term of Company Formation, Taxation System of Hong Kong, China every year. Based on the information from local partners, she provides objective measures of business regulations and their enforcement across 181 countries and selected cities at the sub national and regional level.

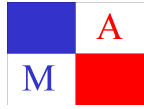
Unlike the other local service providers, we have well experience in doing business with multi-national clients. We know and care what our overseas clients needs. We understand our overseas clients only stay in Hong Kong for ONE or TWO days or even several hours in Hong Kong. So we prepare all the documents before they come and arrange the appointment with bank if necessary. We further understand our clients may need a place to work and check the email, monitor the bank transaction via internet in a private area. So we provide a comfortable conference room with well facilities by means of provision of high speed internet service, a conference room for their business partners, the private desk equipped with computer, fax machine, IDD telephone, scanner, copier machine etc. Our overseas clients can also enjoy the free Coffee, Tea, Soft Drink, Distill Water, Refreshment during their hard working inn our conference room. It seems to be their second office which is far away from their own countries. Our overseas clients are no doubt to use our office facilities rather than a business center in their hotels.

Our overseas clients mainly come from USA, Canada, Peru, Brazil, Argentina, UK, Ireland, Spain, France, Italy, Germany, Switzerland, Portugal, The Netherlands, Norway, Belgium, Israel, Turkey, Greece, Russia, Yemen, Serbia, UAE, Poland, Singapore, Malaysia, Thailand, Indonesia, Bangladesh, Pakistan, India, Japan, Korea, Australia, New Zealand etc. Most of the overseas clients hire our office as their registered office and/or virtual office. We also provide the Trade Service for some of overseas clients.



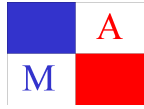
## **The Basic Information for Company Formation**

1. The basic requirement of a valid company
  - with a valid Certificate of Incorporation
  - with a valid Business Registration Certificate
  - the shares have been subscribed or allotted
  - the director(s) has been appointed
  - the company secretary has been appointed
  - the location of a registered office has been filed at the Companies Registry
  - the bank account is well open
  
2. With effective from 3 March 2014, a Hong Kong Company requires at least ONE shareholder, ONE director who is a natural person, ONE company secretary. The shareholder and director can be the same person of any nationality. The shareholder can be a corporation where as the director must be a natural (if only one director) PERSON. The company secretary must be a local resident or a local Hong Kong Company.



## 1<sup>st</sup> year and ongoing cost

1	Initial set up fee include	<ol style="list-style-type: none"> <li>1. Company Formation Fee (one off – including the government fee of Certificate of Incorporation, company kit)</li> <li>2. Business Registration Certificate (1<sup>st</sup> year)</li> <li>3. Provision of company secretary (1<sup>st</sup> year)</li> <li>4. Provision of registered office (1<sup>st</sup> year)</li> <li>5. Provision of virtual office (1<sup>st</sup> year)</li> <li>6. In assistance with bank account opening (one off)</li> </ol> <p>Remarks: We will charge 100% upfront</p>
2	1 <sup>st</sup> year - maintenance	<ul style="list-style-type: none"> <li>- Accounting (additional service to be provided and charged based on time consumption and complexity of the case, we offer monthly, quarterly, bi-annually, annually upon request by clients)</li> <li>- Auditing (additional service to be provided and charged at the fiscal year ended)</li> <li>- Submission of profits tax return (includes within the service of auditing)</li> <li>- Submission of employer's return (additional service to be provided and charged)</li> </ul> <p>Remarks: The accounting and auditing fee will be based on the time consumption and complexity of the case, for example, the accounting fee may be various from General Trading Business to Wholesales Business, Retail Business, Restaurant, Manufacturing etc. The fees are also reflected if the clients have kept the payment records, receipt records, bank statements properly. We will quote the exact fee if we have got the full details from clients.</p>
3	2 <sup>nd</sup> year - maintenance	<p><b>Our Service Fee</b></p> <ul style="list-style-type: none"> <li>- provision of company secretary</li> <li>- provision of registered office</li> <li>- provision of virtual office</li> <li>- Accounting (upon request)</li> <li>- Auditing (upon request)</li> <li>- Submission of Employer's Return (upon request)</li> </ul> <p><b>Government Fee</b></p> <ul style="list-style-type: none"> <li>- Business Registration Certificate</li> <li>- Annual Return Filing Fee</li> </ul>



## **The work flow of Accounting, Auditing and Submission of Profits Tax Return**

When the company is well incorporated -**company formation and post incorporation**, then the company is able to conduct any business activities through the Hong Kong Company. All the trading activities within the Company will be recorded by a systematic ways – **Accounting**. The accounting records with the Financial Statements will be audited by an independent auditor – **Auditing**. The auditor will prepare and submit the auditors' report, tax computation, audited financial statements together with the supporting schedules to Inland Revenue Department – **Submission of Profits Tax Return**.

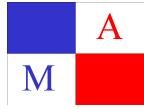
Hereunder are the guidelines to assist our clients to fulfill the legal requirement in comply with Hong Kong Companies Ordinances, Inland Revenue Ordinance, International Financial Reporting Standard (IFRS), Auditing Guidelines.

### **Company Formation and Post Incorporation**

1. Getting the Certificate of Incorporation
2. Getting the Business Registration Certificate
3. Appointment of 1<sup>st</sup> Directors by subscriber
4. Completion the First Directors' Meeting or the First Written Resolution
5. Filing the notification of 1<sup>st</sup> Secretary and Director at Companies Registry
6. Filing the document of consent to act as director
7. Filing the notification of Registered Office at Companies Registry
8. Filing the other statutory documents (if any) other than the above documents
9. Completion of Instrument of Transfer (if any)
10. Completion on bank account opening

### **Accounting**

1. Keeping all the invoices issued to the buyers
2. Keeping all the invoices issued by the suppliers
3. Keeping all the bank statements of the company
4. Keeping all expenses vouchers, such as:-
  - A. Payment to suppliers
  - B. Rent and Rate
  - C. Salary Record of each staff
  - D. MPF (Mandatory Provident Fund) record of each staff

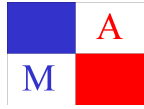


- E. Traveling Expenses – related to business
  - F. Entertainment Expense – related to business
  - G. Printing and Stationery
  - H. Telephone and Fax
  - I. Insurance
  - J. Advertising
  - K. More .....
5. Keeping all the receipt vouchers, such as:-
- A. Receipt from customers
  - B. Interest Receipt
  - C. Sundry Income
  - D. More .....
6. All the above items must be **posted into the appropriate accounts**, for example:-  
Invoices issued to buyers - posted into sales, service income accounts  
Invoices issued by supplier – posted into purchase, cost of service accounts  
Payment of Rent – posted into rent and rate account  
Payment of telephone bill – posted into Telephone and Fax accounts.  
More .....
7. All the appropriate accounts will be posted into a several ledgers and summarize by General Ledger at the end
8. Based on the information of the general ledger, the company is **able to prepare the financial statements**, such as **Profits and Loss Accounts**, **Balance Sheet**

These are the basic requirement of accounting record. Then the accounts will be audited by the independent auditors,

## **Auditing**

- 1. Providing the complete invoice log
- 2. Providing the complete record of sales transaction (sample test)
  - A. Invoice to buyer
  - B. Invoice from supplier
  - C. Order Confirmation/Sales Confirmation/Purchase Order/Quotation
  - D. Bill of Lading/Airway Bill



E. Packing List etc.....

3. Providing the supporting document of each payment and receipt, such as:-
  - A. Payment voucher and Receipt voucher with bank debit/credit advices
  - B. Original invoice when payment to supplier
4. Providing the Assets Registry – to record all the fixed assets
5. Providing the Stock List – stock movement (if any)
6. Providing the bank statement
7. Providing the break down of trade debtors, trade creditors
8. More.....

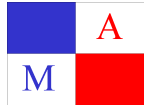
These are the basic requirement of a statutory audit. Then the auditors will issue a auditors' report and express the opinion based on the information provided by the management of the Company.

## **Profits Tax Submission**

1. The auditor will complete the Profits Tax Return based on the information of the audited report. The Profits Tax Return will be signed by the director of the Company.
- 2, The auditor will submit the Profits Tax Return together with the Auditors' Report, Tax Computation, and the supporting schedule to Inland Revenue Department.

In this respect, the Company has fulfilled the legal requirement of filing the Profits Tax Return at the fiscal year end of the Company.





## **Annual Statutory Requirement**

In accordance to Companies Ordinance and Inland Revenue Ordinance, every limited company will require to submit the following Returns to Companies Registry and Inland Revenue Department every year. The director and/or Principal Officer are responsible to submit the said Returns on time.

### **1. Annual Return**

- Every company ***must*** make an annual return which should be filed with the Registrar of Companies once every year.
- The information in this return should be made up to the anniversary of the date of incorporation.
- The contents of the Return will include the particulars of each shareholder, director, company secretary of the Company. The share structure of the Company, the location of the Registered Office etc. All the information will be published at the Companies Registry and open to public for company searching.

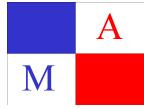
### **2. Employer's Return of Remuneration and Pensions**

- The Inland Revenue Department will request the Company to submit the employer's return every year.
- The director or the principal officer of the Company must complete the form even though the company has not employed any staff since incorporation
- The contents of the Return will include the number of staff to be employed, the particulars of each staff and the total remuneration of each staff during the said period. Based on those information, the Inland Revenue Department will access the tax liabilities of the local staff.

### **3. Profits Tax Return**

- In general, the 1<sup>st</sup> profits tax return will be issued to the Company on the 18th month since incorporation. The Inland Revenue Department will allow the Company to submit the 1<sup>st</sup> profits tax return within 3 months from date of issue.

In general, the ongoing profits tax return will be issued on 1<sup>st</sup> April every year.



- A certified copy of the balance sheet, auditor's report, profits and loss account, tax computation with supporting schedules showing how the amount of Assessable Profits (or Adjusted Loss) has been arrived at to be submitted to Inland Revenue Department on time.

The fiscal year ended of the Hong Kong Government is from 1<sup>st</sup> April to 31<sup>st</sup> March of the following year. However the fiscal year ended of the Company will depend on the client. We will adjust the date of submission of profits tax return based on the actual fiscal year ended of the Hong Kong Government.

### Tips for overseas clients

#### In term of submission of Annual Return

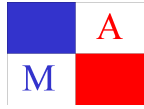
1. Inform the Company Secretary if there is any change of particulars of each shareholder, director. Such as, change of passport number, residential address, change of personal name etc.
2. Inform the Company Secretary if there is any change of share structure of the Company. Such as change of ownership, increase or decrease of authorized share capital, allotment of share etc.
3. Inform the Company Secretary if there is any change of registered office.

#### In term of submission of employer's return

1. Keeping all the salary record (if any)
2. Keeping all the Mandatory Provident Fund's record (if any)
3. Keeping the particulars of each staff (if any)
4. Keeping the employment record of each staff (if any)
5. Keeping the payment record of commission, bonus to each staff, including any payment to directors.

#### In term of submission of profits tax return

1. Keeping the following documents properly
  - Keeping all the bank statements
  - Keeping all the outgoing invoices
  - Keeping all the incoming invoices
  - Keeping all the payment vouchers
  - Keeping all the bank debit/credit advices
  - Keeping all the income and expenses records
  - Keeping the inventory record (if any)
2. The clients are advised to post those transactions into the general ledger and prepare the financial statement periodically. It is a good practice to record all the



transactions and reconcile the bank statement every month.

3. The clients will have plenty of time for conducting statutory audit if all the financial statements are well prepared before hand.

## **Hong Kong Taxation**

Existing profits tax rate is 16.5% on assessable profits.

### **A Simple Guide on The Territorial Source Principle of Taxation**

Hong Kong adopts a territorial source principle of taxation. Only profits which have a source in Hong Kong are taxable here. Profits sourced elsewhere are not subject to Hong Kong Profits Tax. The principle itself is very clear but its application in particular cases can be, at times, contentious

### **Hong Kong's basis of taxation on profits from businesses\_**

Hong Kong adopts a territorial basis for taxing profits derived from a trade, profession, or business carried on in Hong Kong. Profits Tax is only charged on profits which arise in or are derived from Hong Kong. In simple terms this means that a person who carries on a business in Hong Kong but derives profits from another place is not required to pay tax in Hong Kong on those profits.

Many places levy tax on a different basis. Unlike Hong Kong, they tax the world-wide profits of a business, including profits derived from an offshore source.

### **Basic principles for determining the source of profits**

The Courts have over the years considered the subject of the source of profits. The following principles have emerged from authoritative court decisions -

#### **Matter of fact**

The question of locality of profits is a hard, practical matter of fact. No universal rule can apply to every scenario. Whether profits arise in or are derived from Hong Kong depends on the **nature** of the profits and of the transactions which give rise to such profits.

#### **The operations test**

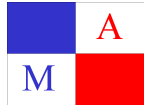
The broad guiding principle is that one looks to see what the taxpayer has done to earn the profits in question and where he has done it. In other words, the proper approach is to identify the **operations** which produced the relevant profits and ascertain **where** those operations took place.

#### **Gross profits from transactions**

The distinction between Hong Kong profits and offshore profits is made by reference to the gross profits arising from individual transactions. Only those business activities which directly produce the gross profits are taken into consideration in determining the source of profits. Activities such as general administration are normally not relevant.

#### **Place where decision is made**

The place where the day-to-day investment/business decisions take place is only one factor which has to be taken into account in determining the source of profits. It is not usually the deciding factor.



**Business presence overseas**

A business may maintain a presence overseas which earns profits outside Hong Kong but the absence of a business presence overseas does not, of itself, mean that all the profits of a Hong Kong business invariably arise in or are derived from Hong Kong. However, in the vast majority of cases where the **principal place of business** is located in Hong Kong and there is no business presence overseas, profits earned by that business are likely to be chargeable to Profits Tax in Hong Kong.

## **Other Services**

a) **Trade Service**

Assist our overseas clients to transact the business activities by three stages, namely as Ordering, Shipment and Payment. Details to be provided upon request.

b) **Management Service**

Comprehensive service includes accounting, payroll, staff recruitment/termination/layoff, insurance for company and staff, mandatory provident fund, provision of bank authorized signatory, employer's return.

c) **Tax Planning**

Professional advices on company structure

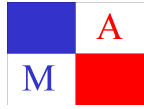
d) **Trade Mark Registration**

Trade Mark Registration for Hong Kong, China, EU, USA etc.

e) **Notarization and Apostil**

Legal requirement for setting up a WOFE or RO (to be notarized by China-Appointed Attesting Officer and Apostil by China Legal Service (HK) Limited

Other documents (to be notarized by Notary Public and apostil by High Court of HKSAR



## **The function and definition of a Registered Office and a Virtual Office**

### **Registered Office**

It is a legal requirement of a limited Hong Kong Company. Its function is to receive the incoming letters and notices from all government departments.

### **Virtual Office (includes package A, B, C)**

Besides the function of a registered office, the function of virtual office are:

#### **Package A (for local resident, not suitable for overseas clients)**

1. License to use our address for business registration and other government-related usage.
2. License to use our address for public communication, e.g. name card, letterhead. (without telephone and fax number line)
3. Mail handling including parcels with immediate notification.

#### **Package B**

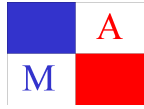
Include item (1) to (3)

4. Mail re-direct service periodically (courier charge at clients' account)
5. Share our fax number and telephone
6. Message taking
7. Fax re-direct to client's destination. (in PDF format)

#### **Package C**

Include item (1) to (7)

8. Dedicated telephone line



9. Dedicated fax line
10. Answering service

### **Company Secretary (Package A,B,C)**

It is a legal requirement of every limited Hong Kong Company. The company secretary must be a local resident or a local Hong Kong company.

#### Duty

##### **Package A (basic)**

1. Acting as company secretary in comply with Companies Ordinance
2. Filing the annual return
3. Up-dated the lists of member, director, company secretary and share transfer

##### **Package B (daily operation)**

Include item (1) to (3)

4. Appointment and Resignation of director,
5. Change of Registered Office
6. Change of Particulars of director
7. Return of Allotment
8. Annual General Meeting

##### **Package C (professional)**

Include item (1) to (8)

9. Change of company name
10. Share Transfer
11. Share re-structure
12. Increase of share capital