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Introduction to HONG KONG S.A.R.

Hong Kong is a free market economy with a liberal regulatory framework and an efficient payment system. Its high degree of trade and financial openness makes it very reliant on world demand and global capital flows while its currency board system (the HKD is pegged to the USD) means its monetary policy is tied to that of the US Federal Reserve. The Hong Kong economy has been increasingly integrated with mainland China in recent years, through merchandise trade (about half of its trade is done with China), tourism and financial links.

Hong Kong's annual average real GDP growth rate fell to 2.8% in 2014-2018 from 3.5% in 2007-2011. The slowdown is a reflection of both cyclical and structural components: between 2000 and 2010, Hong Kong's role as an international financial centre, regional trade hub, growing economic integration with the mainland China and base for services to China strongly boosted its economic growth. In recent years, this “specialisation” has made the territory vulnerable to the deterioration in external conditions and slower growth in China. Moreover, credit risks have grown since 2009 due to rapid loan growth, overheating of the property market, excessively high domestic debt levels and, most importantly, growing financial links with China. Real GDP growth rebounded to 3.8% in 2017 thanks to a more supportive external environment, but it slowed again to 3% in 2018. It has fallen sharply in 2019, hit by depressed exports, falling investment and sluggish private consumption. The fiscal policy stance is increasingly expansionary to counter weak private demand. Short-term prospects are weak due to both external headwinds (US-China tensions, downturn in global trade) and internal tensions (protests could persist). In the medium term, growth prospects remain supported by Hong Kong's sound macroeconomic fundamentals, competitive financial centre, services expertise and offshore RMB centre.

Summary

BNP Paribas presence

BNP Paribas has been present in Hong Kong since 1958. Hong Kong is one of the bank's key global locations, with 2,500 employees. It is one of only a few major international banks supporting the domestic, regional and global requirements of corporate customers, including cash management and trade finance. BNP Paribas is a member of the local clearing house and provides a comprehensive offering for managing payments and collections, including offshore RMB accounts. In addition, the bank has well-established partnerships with leading local vendors for providing cash in transit, lock box facilities and card issuing and acquiring solutions. BNP Paribas was awarded the Greenwich award for “Quality Leader Large Corporate Cash Management No.1, Total Asia, 2018”.

Working with BNP Paribas

BNP Paribas has invested substantially in its processing capabilities to enhance STP and achieve highly competitive cut-off times for customers. The bank provides comprehensive cash pooling solutions both domestically and cross-border, single and multi-currency. Its multi-currency clearing hub supports USD, EUR, RMB and HKD through RTGS. Bearing in mind Hong Kong's position as 'gateway to China', BNP Paribas offers both trade-related and general purpose RMB accounts to meet diverse customer needs, supported with a full range of RMB payments, collections, liquidity and trade finance solutions.

In addition to the bank's full portfolio of electronic banking solutions for both cash and trade, customers have access to BNP Paribas' state-of-the-art Centric solution that delivers seamlessly integrated FX and cash management services through a single web-based electronic banking system. BNP Paribas' robust e-banking platform, Connexis Trade, offers automated, paperless transaction processing in a secure environment, with multilingual capabilities, and customisable reporting and workflow controls.

BNP Paribas is a major player in trade finance throughout Asia, offering a full suite of traditional trade (letters of credit,
bankers’ guarantee, trade financing, standby letters of credit, Bank Payment Obligation (‘BPO’) etc.) and supply chain financing solutions (receivables purchase programmes, supplier financing etc.) products, including a unique inventory solution offered through its trade centres in Australia, China, Japan and Singapore, specifically for companies engaged in international trade, as part of a wider network of more than 100 trade centres globally. BNP Paribas has experienced trade finance advisors and personnel who deliver a range of customised trade solutions and advise on local market practices. These solutions are supported by the bank’s ISO-certified trade services support team.

## Currency

### Hong Kong dollar (HKD).

## Exchange Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Exchange rate: HKD per USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>7.754</td>
</tr>
<tr>
<td>2015</td>
<td>7.752</td>
</tr>
<tr>
<td>2016</td>
<td>7.762</td>
</tr>
<tr>
<td>2017</td>
<td>7.786</td>
</tr>
<tr>
<td>2018</td>
<td>7.84</td>
</tr>
</tbody>
</table>


## Central Bank

- The Hong Kong Monetary Authority (HKMA) acts in the capacity of Hong Kong’s central bank (HKMA – www.hkma.gov.hk).

## Bank accounts

### Resident / non-resident status

- A company is considered resident in Hong Kong if it is incorporated in Hong Kong. A resident company must have a registered office with a company secretary that is either an individual or incorporated company resident in Hong Kong.

## Bank accounts for resident entities

<table>
<thead>
<tr>
<th></th>
<th>Within Hong Kong</th>
<th>Outside Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Currency</td>
<td>Permitted without restriction, fully convertible</td>
<td>Permitted without restriction, fully convertible</td>
</tr>
</tbody>
</table>
### Foreign Currency

<table>
<thead>
<tr>
<th>Within Hong Kong</th>
<th>Outside Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permitted without restriction, fully convertible</td>
<td>Permitted without restriction, fully convertible</td>
</tr>
</tbody>
</table>

### Bank accounts for non-resident entities

<table>
<thead>
<tr>
<th>Local Currency</th>
<th>Within Hong Kong</th>
<th>Outside Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permitted without restriction, fully convertible</td>
<td>Permitted without restriction, fully convertible</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Foreign Currency</th>
<th>Within Hong Kong</th>
<th>Outside Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permitted without restriction, fully convertible</td>
<td>Not applicable</td>
<td></td>
</tr>
</tbody>
</table>

### Lifting fees

- Per item-based charges and/or subscription fees are applied on payments.
- Larger companies are able to negotiate lifting fees.

### BNP Paribas insights

- Account opening in Hong Kong is straightforward, subject to regular know your customer (KYC) and compliance requirements.

### BNP Paribas Cash Management Capabilities

#### Liquidity Management

<table>
<thead>
<tr>
<th>Physical cash pooling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supported by BNP Paribas</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notional pooling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supported by BNP Paribas</td>
</tr>
</tbody>
</table>

Not required / permitted in HONG KONG S.A.R. or not supported by BNP Paribas
### Collections

<table>
<thead>
<tr>
<th>Service</th>
<th>Supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash collections</td>
<td>✅</td>
</tr>
<tr>
<td>Cheque collections</td>
<td>✅</td>
</tr>
<tr>
<td>Direct debit collections</td>
<td>✅</td>
</tr>
<tr>
<td>Domestic incoming transfers</td>
<td>✅</td>
</tr>
<tr>
<td>International incoming transfers</td>
<td>✅</td>
</tr>
<tr>
<td>Card acquiring</td>
<td>✅</td>
</tr>
</tbody>
</table>

- Supported by BNP Paribas
- Not required / permitted in HONG KONG S.A.R. or not supported by BNP Paribas

### Payments

<table>
<thead>
<tr>
<th>Service</th>
<th>Supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash withdrawals</td>
<td>✅</td>
</tr>
<tr>
<td>Cheque payments</td>
<td>✅</td>
</tr>
<tr>
<td>Direct debit payments</td>
<td>✅</td>
</tr>
<tr>
<td>Domestic outgoing transfers</td>
<td>✅</td>
</tr>
<tr>
<td>International outgoing transfers</td>
<td>✅</td>
</tr>
<tr>
<td>Card issuing</td>
<td></td>
</tr>
</tbody>
</table>

- Supported by BNP Paribas
- Not required / permitted in HONG KONG S.A.R. or not supported by BNP Paribas
Channels

<table>
<thead>
<tr>
<th>Channels</th>
<th>Supported by BNP Paribas</th>
<th>Not required / permitted in HONG KONG S.A.R. or not supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local e-Banking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global e-Banking - Connexis</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>SWIFTNet / Global host to host</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

Payments & Collections

Market overview

- Hong Kong has highly efficient payment systems consistent with its role as a popular location for regional treasury centres and as a centre for offshore RMB. RTGS is available for HKD, USD, EUR and RMB, with ACH for HKD and RMB. Paper cheque and e-cheque clearing are also available for HKD, USD and RMB.

Payment systems

<table>
<thead>
<tr>
<th>HKD CHATS</th>
<th>Type</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Type</strong></td>
<td>Real-time gross settlement.</td>
</tr>
<tr>
<td></td>
<td>Participants</td>
<td>153 direct.</td>
</tr>
<tr>
<td></td>
<td>Transaction types processed</td>
<td>High-value and urgent HK-denominated electronic payments.</td>
</tr>
<tr>
<td></td>
<td>Operating hours</td>
<td>08:30 to 18:30 HKT, Monday to Friday.</td>
</tr>
<tr>
<td></td>
<td>Clearing cycle details (e.g. cut-off times)</td>
<td>Payments are cleared and settled in real time.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interbank payment cut-off time = 18:30 HKT.</td>
</tr>
</tbody>
</table>
### System holidays

- HKD CHATS is closed on all Hong Kong bank holidays.
- Hong Kong's bank holidays are:
  - 2nd half 2019: July 1, September 14*, October 1, 7*, December 25, 26.
  - 2020: January 1, 25-28, April 4, 10, 11, 13, 30*, May 1, June 25, July 1, October 1, 2*, 26, December 25, 26
  The date shown may vary by plus or minus one day. These dates are derived by converting from a non-Gregorian calendar (e.g., Muslim or Hindu) to the Gregorian calendar. Some of these dates cannot be determined in advance with absolute accuracy, even by the governing authorities. In the case of Muslim dates in particular, the feast days are determined by the sighting of a new/full moon.

### EURO CHATS

<table>
<thead>
<tr>
<th>Type</th>
<th>Real-time gross settlement.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants</td>
<td>36 direct, 17 indirect.</td>
</tr>
<tr>
<td>Transaction types processed</td>
<td>High value and urgent EUR-denominated electronic payments.</td>
</tr>
<tr>
<td></td>
<td>Low-value bulk clearing items.</td>
</tr>
<tr>
<td>Operating hours</td>
<td>08:30 to 18:30 HKT, Monday to Friday.</td>
</tr>
</tbody>
</table>

#### Clearing cycle details (e.g. cut-off times)

- Payments are cleared and settled in real time.
- Interbank payment cut-off time = 17:30 HKT.
- Standard Chartered Bank (HK) is the settlement institution.

### USD CHATS

<table>
<thead>
<tr>
<th>Type</th>
<th>Real-time gross settlement.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants</td>
<td>104 direct, 22 indirect.</td>
</tr>
<tr>
<td>Transaction types processed</td>
<td>High-value and urgent EUR-denominated electronic payments.</td>
</tr>
<tr>
<td></td>
<td>Low-value bulk clearing items.</td>
</tr>
<tr>
<td>Operating hours</td>
<td>08:30 to 18:30 HKT, Monday to Friday</td>
</tr>
</tbody>
</table>

#### Clearing cycle details (e.g. cut-off times)

- Payments are cleared and settled in real time.
- Interbank payment cut-off time = 17:30 HKT.
- HSBC is the settlement institution.

### RMB CHATS

<table>
<thead>
<tr>
<th>Type</th>
<th>Real-time gross settlement.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants</td>
<td>141 domestic, 63 overseas.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Transaction types processed</strong></td>
<td>• RMB-denominated payments (local and cross-border cheques, interbank fund transfers and low-value bulk clearing items).</td>
</tr>
<tr>
<td><strong>Operating hours</strong></td>
<td>• 08:30–05:00 T+1 HKT, Monday to Friday.</td>
</tr>
</tbody>
</table>
| **Clearing cycle details (e.g. cut-off times)** | • Payments are cleared and settled in real-time. 
  • Interbank payment cut-off time = 17:30 HKT. 
  • Bank of China (HK) is the settlement institution. |
| **System holidays**      | • RMB CHATS is closed on all Hong Kong holidays. (Dates as above) |
| **CLG**                 | **Type**: • Net settlement system.                    |
| **Participants**        | • 133 direct for HKD-denominated items, 114 direct for USD-denominated items and 84 direct for RMB-denominated items. |
| **Transaction types processed** | • Paper-based payments (cheques, demand drafts, cashier's orders and remittance advices). 
  • Cheques are truncated into electronic items before being processed. |
| **Operating hours**      | • Monday to Friday.                                  |
| **Clearing cycle details (e.g. cut-off times)** | • Payments (excluding autodebits) are settled on a next-day basis. 
  • autocredit cut-off time = 08:45 HKT. 
  • JETCO ATM cut-off time = 09:00 and 11:30 HKT. 
  • EPSCO POS cut-off time = 10:00 HKT. 
  • autodebit items (direct debits) are cleared each Friday and settled the following Monday. Cut-off time = 09:00 HKT. |
| **System holidays**      | • CLG is closed on all Hong Kong bank holidays. (Dates as above) |
| **ECG**                 | **Type**: • Net settlement system.                    |
| **Participants**        | • 134 direct for HKD, 115 direct for USD, 91 direct for RMB. |
| **Transaction types processed** | • Low-value and bulk electronic payments (autopay, JETCO ATM, EPSCO POS). |
| **Operating hours**      | • Monday to Friday.                                  |
| **Clearing cycle details (e.g. cut-off times)** | • Payments (excluding autodebits) are settled on a next day basis. 
  • autocredit cut-off time = 08:45 HKT. 
  • JETCO ATM cut-off time = 09:00 and 11:30 HKT. 
  • EPSCO POS cut-off time = 10:00 HKT. 
  • autodebit items are cleared each Friday and settled the following Monday. Cut-off time = 09:00 HKT. |
System holidays

- ECG is closed on all Hong Kong bank holidays. (Dates as above).

Faster Payment System

<table>
<thead>
<tr>
<th>Type</th>
<th>Real-time gross settlement</th>
</tr>
</thead>
</table>

Participants

- 21 banks and 10 SVF operators.

Transaction types processed

- Low-value credit and debit transfers

Operating hours

- 24/7/365

Clearing cycle details (e.g cut-off times)

- Payments are cleared and settled in real time.

System Holidays

- Faster Payment System is closed on all Hong Kong bank holidays. (Dates as above).

Transaction volumes by instrument

<table>
<thead>
<tr>
<th>Transactions (millions)</th>
<th>% change</th>
<th>Value (HKD billion)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit cards</td>
<td>133.3</td>
<td>136.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Credit cards</td>
<td>556.4</td>
<td>627.7</td>
<td>12.8</td>
</tr>
</tbody>
</table>

Credit transfers

- Credit transfers are used by companies to pay salaries and suppliers, and to make tax payments and treasury payments.
- High-value and urgent HKD-denominated credit transfers are settled in real-time via HKD CHATS.
- EUR, RMB or USD-denominated credit transfers are settled in real-time via EUR CHATS, RMB CHATS or USD CHATS.
- HKD, USD and RMB-denominated credit transfers between merchants and their customers can also be settled on a domestic and cross-border basis via an Electronic Bill Presentment and Payment (EBPP) platform launched in 2013. The system enables the straight through processing of electronic bill payments from individuals and companies.
- Cross-border transfers can also be made via SWIFT and settled through correspondent banking relationships.
- Standard Chartered, the settlement bank for EUR CHATS, has a direct connection to the pan European TARGET2 RTGS system. HSBC, the settlement bank for USD CHATS has a connection to the CHIPS RTGS system in the
USA.
- Low-value and non-urgent credit transfers are processed via the ECG system or via newly launched FPS.

**Direct debits**

- Direct debits (autodebits) are used for regular payments, such as utility bills.
- Direct debits settled via the ECG system are cleared each Friday and settled the following Monday. Direct debits are also available via the FPS.
- RMB-denominated autodebits are available in Hong Kong. Hong Kong residents can make RMB-denominated payments to merchants in mainland China’s Shenzhen region and the wider Guangdong Province by debiting either a China UnionPay HKD/RMB debit card or via an RMB bank account in Hong Kong.

**Cheques**

- The cheque is a popular cashless payment instrument, used by both consumers and companies.
- Cheques are truncated into electronic items before being processed via the CLG system.
- USD and HKD-denominated cheques between Hong Kong and the Guangdong Province (including the Shenzhen Special Economic Zone) and Macau are settled on next-day basis via a cheque clearing process agreement between Hong Kong Interbank Clearing (HKICL), the Guangzhou Electronic Banking Settlement Centre and the Shenzhen Financial Electronic Settlement Centre.
- E-Cheques denominated in HKD, USD and RMB can be sent between Hong Kong and Guangdong or Shenzhen. A cross-border, one-way, e-cheque clearing service of HKD, USD and RMB-denominated e-Checks between Hong Kong-Guangdong and Hong Kong-Shenzhen has been in operation. Nine banks at present offer the e-Cheque issuance service via their internet/mobile banking platforms.
- RMB-denominated cheques are cleared and settled via RMB CHATS.

**Card payments**

- Card payments are popular in Hong Kong, especially for retail transactions.
- There were 19.46 million credit card accounts at the end of 2018.
- China UnionPay, Visa and MasterCard-branded credit cards are the most widely issued.
- Debit cards in Hong Kong can carry more than one debit card brand, so the total number of debit cards in circulation is not available due to overlapping statistics from different card operators. In Q4 2018, the total number of debit card transactions totalled 35.8 million (a 6.9% increase on Q3) with a value of HKD 86.3 billion (an 8.7% decrease on Q3).

**ATM/POS**

- ATM/POS transactions can be settled via a bulk settlement system for various card schemes. Participants (which include VISA, MasterCard and China UnionPay) run separate settlement times.
- There are over 30,000 EPS terminals in Hong Kong.
- JETCO operates over 3,000 ATMs across over 30 member banks.

**Electronic wallet**

- The dominant electronic wallet scheme is the Octopus card, which can be used on public transport and in vending machines. There are over 30 million Octopus cards currently in circulation.
- There are currently 18 stored value facilities (SVF) licensees. At the end of Q4 2018, there were 56.1 million SVF accounts.
- Mobile payment services are popular in Hong Kong and most banks offer e-wallet payment apps to customers.
BNP Paribas capabilities

- BNP Paribas is a member of the local clearing house and provides comprehensive payment and collection solutions to customers in Hong Kong including payroll, supplier and ad hoc payments.
- BNPP is a clearing member for the e-Cheque service, which was launched in December 2015.
- Through leading local partners, the bank also offers highly competitive cash in transit services and card issuing and acquiring solutions.

Electronic banking

Market overview

- Electronic banking services are available from most banks.
- There is no national electronic banking standard in Hong Kong, so companies use banks’ proprietary services.
- Transaction and balance reporting, automated end-of-day sweeping, and some transaction initiation services are available on a domestic and cross-border basis.
- Online and mobile banking services are provided by the country's leading commercial banks.
- Hong Kong's EBPP platform allows individuals and companies to pay for transactions through online banking and mobile banking accounts. Nineteen banks operating an estimated nine million internet banking accounts provide the EBPP service through their internet banking platforms.

BNP Paribas capabilities

- In addition to BNP Paribas’ full portfolio of electronic banking solutions, customers in Hong Kong have access to Centric, an integrated web-based banking solution offering cohesive FX and cash management services.

Liquidity management

Domestic: notional pooling

- Domestic notional cash pools are widely available for single and multiple entities.
- Resident and non-resident bank accounts can participate in the same domestic notional cash pool structure.
- Domestic notional cash pools are available in HKD and major foreign currencies.

Domestic: cash concentration

- Domestic cash concentration structures are widely available for single and multiple entities.
- Resident and non-resident bank accounts can participate in the same cash concentration structure.
- Domestic cash concentration structures are available in HKD and major foreign currency.
- Zero balancing is a commonly used structure.

Cross-border notional pooling

- Cross-border notional cash pools are available.
- Resident and non-resident bank accounts can participate in the same cross border notional cash pool structure.
Cross-border cash concentration

- Cross-border cash concentration structures are available.
- Resident and non-resident bank accounts can participate in the same cross border cash concentration structure.

BNP Paribas insights

- Comprehensive opportunities for domestic and cross-border cash pooling exist in Hong Kong, subject to normal due diligence. Please contact your BNP Paribas Relationship Manager for more information.

Short term investments

Market overview

Interest payable on credit balances

- Interest-bearing current accounts are permitted for residents and non-residents.

Demand deposits

- Demand deposits denominated in HKD or major foreign currencies are available for various terms.

Time deposits

- Time deposits are available in HKD or major foreign currencies for any length term. Terms between one day and one year are typically offered.
- Restricted licensed banks are limited to offering time deposits of HKD 500,000 or more while deposit-taking companies are confined to offering deposits of HKD100,000 or more, with a maturity of at least three months.

Certificates of deposit

- Domestic banks offer certificates of deposit for terms of three to five years.
- CDs can be issued paying fixed or floating interest.

Treasury (government) bills

- The HKMA issues Treasury bills (Exchange Fund Bills) for terms of one week, one, three and six months and one year.
- The minimum investment amount is HKD 500,000.

Commercial paper

- Commercial paper is not generally issued in Hong Kong.

Money market funds

- Money market funds are popular short-term investment instruments.

Repurchase agreements

- Repurchase agreements are available.
Banker's acceptances

- Banker's acceptances denominated in USD are available in Hong Kong, although they are not commonly used for short-term investments.

BNP Paribas insights

- Please contact your BNP Paribas relationship manager for support and guidance on liquidity management.

BNP Paribas Trade Finance Capabilities

Trade payments

<table>
<thead>
<tr>
<th>Document type</th>
<th>Supported status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documentary credits</td>
<td>✅</td>
</tr>
<tr>
<td>Documentary collections</td>
<td>✅</td>
</tr>
</tbody>
</table>

Guarantees

<table>
<thead>
<tr>
<th>Guarantee type</th>
<th>Supported status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantees</td>
<td>✅</td>
</tr>
<tr>
<td>Standby letters of credit</td>
<td>✅</td>
</tr>
</tbody>
</table>

Supply chain management

<table>
<thead>
<tr>
<th>Receivables</th>
<th>Supported status</th>
</tr>
</thead>
</table>
Payables
Inventory

Supported by BNP Paribas

Not required / permitted in HONG KONG S.A.R. or not supported by BNP Paribas

Trade channels

Connexis Trade
Connexis Supply Chain
SWIFTNet Trade for Corporates
Connexis Connect

Supported by BNP Paribas

Not required / permitted in HONG KONG S.A.R. or not supported by BNP Paribas

International trade

General trade rules

- Hong Kong is a duty-free port.
- As a member of the Asia-Pacific Economic Cooperation (APEC) forum, Hong Kong has agreed to liberalise trade and investment rules between members.

Trade agreements

- Hong Kong has signed five free trade agreements with European Free Trade Association (EFTA) member states, Chile, China, Macao, Georgia, and New Zealand.
- An FTA has been signed with the Association of Southeast Asia Nations (ASEAN). The FTA between Hong Kong and Myanmar, Singapore and Thailand came into effect on June 11, 2019.
- Hong Kong and Australia signed a bilateral free trade agreement, guaranteeing Hong Kong products zero tariffs in Australia.
- Hong Kong is in the process of negotiating FTAs with the Maldives and Australia.
- Hong Kong has signed a Closer Economic Partnership Agreement with China.
Imports / exports

<table>
<thead>
<tr>
<th>Imports</th>
<th>Raw materials and semi-manufactures</th>
<th>Consumer goods</th>
<th>Capital goods</th>
<th>Foodstuffs</th>
<th>Fuel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary import sources</td>
<td>China (44.6%)</td>
<td>Singapore (6.4%)</td>
<td>Japan (6.7%)</td>
<td>South Korea (5.5%)</td>
<td>USA (5.2%)</td>
</tr>
<tr>
<td>Exports</td>
<td>Electrical Machinery and appliances</td>
<td>Textiles</td>
<td>Apparel</td>
<td>Footwear</td>
<td>Watches and clocks</td>
</tr>
<tr>
<td>Export markets</td>
<td>China (54.1%)</td>
<td>USA (7.7%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Import / export volumes

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports - goods USD m</td>
<td>514,160</td>
<td>501,728</td>
<td>501,550</td>
<td>540,460</td>
<td>569,143</td>
</tr>
<tr>
<td>Imports - goods USD m</td>
<td>546,519</td>
<td>524,598</td>
<td>518,254</td>
<td>563,387</td>
<td>601,581</td>
</tr>
<tr>
<td>Imports - services USD m</td>
<td>73,964</td>
<td>74,093</td>
<td>74,478</td>
<td>77,686</td>
<td>81,053</td>
</tr>
<tr>
<td>Current account as % GDP</td>
<td>1.3</td>
<td>3.3</td>
<td>4.0</td>
<td>4.7</td>
<td>4.3</td>
</tr>
</tbody>
</table>


Trade finance - imports

Documentation

- The following documentation is required in order to import goods into Hong Kong:
  - customs declaration
  - commercial invoice
  - bill of lading.
  - A company must file an import declaration with the Commissioner of Customs and Excise within 14 days of goods being imported into Hong Kong, unless the imported item is an exempted article.

Import licences

- Licences are required when importing alcohol of over 30% strength, tobacco, textile products and rice.
Licences are also needed for certain items that may impact on the environment, the ozone and for reasons of public health.

**Import taxes and tariffs**

- Tariffs are generally not set on imports.
- Excise taxes are set on methyl alcohol, hydrocarbon oils, certain alcohol and tobacco.

**Financing requirements**

- None

**Risk mitigation**

- None

**Prohibited imports**

- Prohibited imports are published on a negative list.
- Hong Kong prohibits the import of certain items in order to protect fauna and flora, for health and safety reasons, and/or for national security.

**Trade finance - exports**

**Documentation**

- The following documentation is required in order to export goods from outside Hong Kong:
  - customs declaration
  - commercial invoice
  - bill of lading.

**Export licences**

- Licences are required when exporting items that impact on health and safety and the environment.

**Export taxes and tariffs**

- None

**Financing requirements**

- None
Risk mitigation

- The Export Credit Insurance Cooperation (ECIC) provides state-guaranteed export credit insurance.
- Export credit insurance and financing is also available from private companies and commercial banks.

Prohibited exports

- Prohibited exports are published on a negative list.
- Hong Kong prohibits the export of certain items in order to protect fauna and flora, for health and safety reasons, and/or for national security.

Regulatory requirements

Reporting regulations

- Automatic reporting requirements are not applied in Hong Kong.
- The Census and Statistics Department’s (C&SD) Survey of External Claims, Liabilities and Income gathers balance of payments data between residents and non-residents on a quarterly basis.

Exchange controls

- Hong Kong does not apply exchange controls.

Anti-money laundering / counter-terrorism financing

- Hong Kong has implemented anti-money laundering and counter-terrorist financing legislation (Drug Trafficking (Recovery of Proceeds) Ordinance (Cap.405), the Organised and Serious Crime Ordinance (Cap. 455), the United Nations (Anti-Terrorism Measures) Ordinance 2002, amended in 2012, the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Cap. 575); and the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Ordinance 2018 and the Companies (Amendment) Ordinance 2018.
- A Financial Action Task Force (FATF) member, Hong Kong observes most of the FATF-49 standards. Hong Kong is also a member of the Asia/Pacific Group on Money Laundering (APG) and the Group of International Finance Centre Supervisors (GIFCS).
- Hong Kong has established a financial intelligence unit, the Joint Financial Intelligence Unit (JFIU), which is a member of the Egmont Group.
- Financial institutions must apply customer due diligence measures when establishing a business relationship.
- Beneficial owners must be identified.
- Ongoing monitoring of accounts and transactions is required taking a risk-based approach.
- Individuals carrying out a single or series of linked transactions exceeding HKD 120,000 or its equivalent in foreign currency must be identified. For wire transfers, the threshold is HKD 8,000, whether carried out in a single or series of linked operations, or its equivalent in foreign currency.
- Financial institutions in the broadest sense must record and report suspicious transactions to the JFIU.
- Financial institutions must maintain records for six years following the termination of the business relationship.

* Data as at June 2019.
Resident / non-resident

- Hong Kong adopts the ‘territorial source principle’ in charging profits tax. Both resident and non-resident companies carrying out business in Hong Kong pay tax on profits sourced in Hong Kong. The concept of residence is not defined by tax legislation, and generally the residence status of a company does not affect its tax liability in Hong Kong.

Financial instruments

- The tax treatment of gains/losses depends upon the nature of the financial instrument. Gains/losses arising from capital instruments are non-taxable/non-deductible. It is a question of fact and degree whether an instrument is of a capital or revenue nature, and all the surrounding circumstances (generally with reference to the ‘badges of trade’), including the accounting treatment, have to be considered.
- Gains/losses arising from financial instruments used for hedging purposes would generally follow the treatment of the underlying hedged asset/liability.

Interest and financing costs

- From 1 April 2016, qualifying Regional Treasury Centers (RTCs) in Hong Kong benefit from a reduced tax rate from 16.5% to 8.25%. Interest expenses for intra-group financing business can become deductible under specific conditions.

Debt instruments

- Interest received or receivable on the provision of a medium-term or short-term qualifying debt instrument, and any gain or profit on the sale/disposal/redemption on maturity/presentment of the medium-term or short-term debt instrument, are chargeable to tax at half the normal tax rate.

Foreign exchange

- Not applicable

Advance tax ruling availability

- Companies may apply to the Commissioner of the IRD for an advance tax ruling regarding transactions, operations or arrangements that are under serious consideration. The application can determine how the provisions of the Inland Revenue Ordinance apply to a specific scenario. Full details need to be provided before an advance ruling can be given.
- There is an advance pricing arrangement program.

Capital gains tax

- There is no capital gains tax in Hong Kong.
- However, gains on the disposal of assets may be subject to profits tax if the disposal constitutes a transaction in the nature of trade (a factual determination).
Withholding tax (subject to tax treaties)

<table>
<thead>
<tr>
<th>Payments to:</th>
<th>Interest</th>
<th>Dividends</th>
<th>Royalties</th>
<th>Other income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident entities</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Non-resident entities</td>
<td>None</td>
<td>None</td>
<td>4.5%/ 4.95%/ 16.5%</td>
<td>See withholding tax notes</td>
</tr>
</tbody>
</table>

- There is no withholding tax on interest and dividends paid to resident or non-resident companies.
- There is no requirement to withhold tax on royalties paid to Hong Kong companies. Royalties received by or accrued to non-residents are subject to profits tax at a deemed profit rate of 30%. Applying the corporate tax rate of 16.5%, the amount of tax withheld by the Hong Kong company is normally 4.95% of royalties paid (4.5% for a non-corporate entity). The Hong Kong company paying royalties to the non-resident company is required to withhold a sufficient amount from the payment to meet the tax liability of the non-resident.
- The deemed profit rate on royalties paid by a Hong Kong company to an associated non-resident company is 100% where the intellectual property was once owned by any person carrying out business in Hong Kong. In this case, the withholding rate is 16.5% of royalties paid (15% for a non-corporate entity).

Tax treaties / tax information exchange agreements (TIEAs)

- Hong Kong has exchange of information relationships with 37 jurisdictions through 31 double tax treaties and six TIEAs.

Thin capitalisation

- There are no thin capitalisation rules in Hong Kong. However, there are special rules relating to the deduction of interest expenses:
  - Interest paid to non-financial institutions is deductible only when the interest is subject to Hong Kong profits tax in the hands of the recipients.
  - To fulfil the ‘secured-loan test’, the borrowing must not be secured by a non-taxable income-generating loan or deposit that is made by associates.
- The ‘interest flow-back test’ requires that the interest paid on the borrowing will not flow back to an associate of the borrower.
- If any of these conditions applies, the interest paid is not deductible. An exception to the interest flow-back test is when the recipient of the interest is subject to Hong Kong profits tax.
- Interest paid on debentures or other financial instruments marketed in Hong Kong or in other major financial centres is also subject to the interest flow-back test. If the associate that receives the interest is a registered securities dealer, it can be excluded from the interest flow-back test in order to allow genuine commercial external financing arrangements to proceed.
- The above interest deduction rules do not apply to financial institutions. Interest expenses incurred by financial institutions are generally deductible.

Transfer pricing

- For transactions between a Hong Kong company and a closely connected non-resident, where the transactions result in no profit, or less than a normal profit for the Hong Kong company, the non-resident is deemed to carry on a business in Hong Kong through the Hong Kong company.
- Other than the specific transfer-pricing rule that deals with transactions between Hong Kong companies and non-residents, general anti-avoidance provisions are used by the Commissioner to challenge transactions not
made at arm's length. The IRD issued the Departmental Interpretation and Practice Notes No 46 in December 2009, which says that the [OECD transfer pricing](#) guidelines are generally applicable.

**Stamp duty**

- Stamp duty is charged on documents connected with the lease, sale or transfer of immovable property in Hong Kong and the sale of shares. If they are transferred at less than market value, stamp duty may be imposed based on the market value at the date of transfer.
- Stamp duty on the transfer of Hong Kong shares is 0.2% of the value of the shares transferred, which is shared equally between the buyer and seller. An exemption may be available for an intragroup transaction if certain conditions are satisfied.
- The rate on the lease of immovable property ranges from 0.25% of the total rent payable for a short-term lease (one year or less); 0.5% of the annual or average annual rent for a one to three-year lease; and 1% of the annual or average annual rent for a lease exceeding three years.
- The maximum ad valorem stamp duty on the sale and conveyance of property is 8.50% of the value of property transferred. For residential property, the ad valorem stamp duty increased to a flat rate of 15%, other than in specifically exempted and excepted cases, with effect from 5 November 2016).
- For any residential property acquired on or after 27 October 2012, a SSD ranging from 5% to 20% is levied if the property is sold within 36 months of purchase. In addition to ad valorem stamp duty and SSD, a Buyer's Stamp Duty (BSD) at a flat rate of 15% applies to residential property if it is acquired by any person (including a limited company) except a Hong Kong permanent resident on or after 27 October 2012.

**Cash pooling**

- Hong Kong has no specific tax rules that apply to [cash pooling](#) arrangements.

**Financial transactions / banking services tax**

- Hong Kong has no specific taxes applying to financial transaction and banking services, including loans, money transfers, letters of credit and foreign exchange.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2019 ([www.deloitte.com](http://www.deloitte.com)).

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