

Limited Partnership Funds Features and Benefits



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VISTRA 

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Introduction

As an important step to consolidate and develop Hong Kong's position as a premier international asset and wealth management centre, the Limited Partnership Fund ("LPF") regime is introduced to attract private investment funds to set up and register in Hong Kong in order to promote the channeling of capital between Hong Kong and the rest of the Greater Bay Area.

The Limited Partnership Fund Ordinance (Cap 637) ("LPFO") came into effect in Hong Kong on 31 August 2020, replacing the outdated Limited Partnership Ordinance (Cap 37) ("LPO") that was enacted back in 1912. LPFO, as a modern and effective legal regime, can facilitate the establishment of funds onshore in Hong Kong in the form of limited partnerships.

This development is expected to cement the city's position as a leading centre for asset management and private equity investment in Asia.

Why not LPO?

Under the LPO, onshore funds can be established in the form of a unit trust or an open-ended fund company, which are not the preferred vehicles for most strategy types adopted by private fund managers including private equity, venture capital, real estate, infrastructure, credit and special situations. Private funds that adopt these strategies are typically structured as limited partnerships. For this reason, it had become the norm for Hong Kong-based private fund managers to set up funds in offshore jurisdictions such as the Cayman Islands.





Features of the LPFO

LPFs that are registered under the new regime share certain characteristics.

- **General Partner (“GP”)**

A LPF must have a GP who is ultimately responsible for the management and control of the fund, and who will assume unlimited liability for the debts and obligations of the fund. The GP can be a natural person, private company, limited partnership or a LPF. The GP can also simultaneously act in the capacity of an investment manager and assume the responsibility for carrying out the day-to-day management of the fund. Otherwise, the GP must appoint a separate person or company to act as the investment manager.

- **Limited Partner (“LP”)**

A LPF must have at least one LP at the date of registration. LPs have no day-to-day management rights or control over the assets of the fund, but rather they have the right to participate in the income and profits arising from the fund. As their name suggests, the liability of LPs for the debts and obligations of the fund is limited to the extent of their agreed contributions. However, if an LP engages in an activity that amounts to managing the fund, both the LP and the GP may be jointly and severally liable for debts and obligations incurred while the

LP takes part in such activities.

- **Limited Partnership Agreement (the “Agreement”)**

Every fund must be governed by a written Agreement that is mutually agreed upon by the partners. The Agreement may dictate among other things:

- the admission and withdrawal of partners;
- the transfer of interests by LPs;
- the governance and decision-making procedures of the fund;
- the investment scope and strategy of the fund;
- the powers, rights and obligations of the partners;
- the scope of the GP’s fiduciary duties and the remedies for the breach or default thereof;
- capital contributions, withdrawals of capital contributions, distribution of proceeds and clawback obligations; and
- the procedure for the voluntary dissolution of the fund (as a convenient alternative to the right of any partner or creditor to petition the Court to dissolve the fund on just and equitable grounds, or to wind up the fund as an unregistered company pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap 32)).

▪ **Other features**

- the requirement to end the name of the fund with “Limited Partnership Fund”, “LPF” and/or “有限合夥基金”;
- the obligation to maintain a registered office in Hong Kong;
- the GP’s role in ensuring proper custody of the fund’s assets (whether through the appointment of a custodian or otherwise);
- the GP’s duty to appoint an independent auditor for the purpose of auditing the financial statements of the fund annually;
- the GP’s responsibility to appoint either an authorized institution, licensed corporation, legal or accounting professional to conduct required anti-money laundering measures; and
- the need to have a Hong Kong law firm or solicitor submit the application to register the fund to the Registrar of Companies (the “Registrar”).

To ensure transparency in the structure of funds, all funds must continuously update the Registrar with basic information that will be publicly available for a prescribed fee. Such information includes the name of the fund, its registered office address and principal place of business, its investment scope and the name and contact details of the GP, investment manager and/or authorized

representative. However, the register will not contain information as to the identity or background of LPs. This information is instead maintained on a private and confidential basis at the registered Hong Kong office of the fund.

More information

The LPF regime is a registration scheme administered by the Companies Registry.

Comprehensive information on the LPF regime, including external circular, information pamphlets, specified forms etc. are available on its website: <https://www.cr.gov.hk/en/legislation/lpf.htm>





Tax Benefits

LPFs are subject to distinctively advantageous tax arrangements. For example, they may be exempt from profits tax provided they meet the definition of a “fund” under section 20AM of the Inland Revenue Ordinance and satisfy certain conditions under the Unified Funds Exemption regime. Also, funds registered under the LPFO have the benefit of not being charged any capital duty and/or stamp duty imposed on proceeds arising from the distribution of profits, as well as on the contribution, transfer or withdrawal of a partnership interest to and from a fund. Moreover, the Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021 (the “Bill”) was passed by the Legislative Council on 28 April 2021. The Bill seeks to amend the Inland Revenue Ordinance (Cap. 112) to provide tax concessions by charging eligible carried interest distributed by private equity funds at a profits tax rate of 0%, while excluding 100% of eligible carried interest from employment income for the calculation of salaries tax. This concessional tax treatment will have retrospective effect and apply to eligible carried interest received by or accrued to qualifying recipients on or after 1 April 2020.

“ The Bill seeks to provide tax concessions by charging eligible carried interest distributed by private equity funds at a profits tax rate of 0% ”

Re-domiciliation

To promote the “onshorisation” of funds to Hong Kong and in response to market voices, the Financial Services and the Treasury Bureau issued a proposal for establishing a regime to allow migration of offshore funds to Hong Kong.

- **Eligibility** – A fund established outside Hong Kong in the form of a limited partnership or a corporate is eligible, given it meets the same set of eligibility requirements for an LPF.
- **Continuity** – Upon re-domiciliation, the migrated fund remains as the same legal entity. Re-domiciliation to Hong Kong does not intend to prejudice or affect the identity of the fund as previously incorporated or registered.
- **Contracts** – Contracts made and resolutions passed prior to re-domiciliation will not be affected, and the rights, functions, liabilities, obligations and property of the fund will not be affected.
- **Legal obligations** – Any previous legal proceedings by or against the fund will not be rendered defective.
- **Application** – A Hong Kong law firm or a Hong Kong qualified solicitor to file the application to the Registrar on behalf of an overseas limited partnership.
- **Tax** – The same tax arrangements will apply. The migration process would not give rise to any stamp duty implications.

Market Response

The investment community's impression of the new LPFO has been overwhelmingly positive, with especially strong interest and support from institutional investors, private equities and family offices in the Greater China region. Market participants frequently align LPFO with Wealth Management Connect Scheme ("WMC") as mutually-supplementary government initiatives when exploring investment opportunities in Guangdong-Hong Kong-Macao Greater Bay Area.

Investors, asset managers and family offices are welcomed to contact

InvestHK in order to understand more on how they can leverage these measures and schemes to create greater value for themselves or their clients.

The "Memorandum of Understanding on the Launch of the Cross-Boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area" has been signed on 5 Feb 2021, laid a good foundation for the smooth operation of WMC and the protection of investors' interest.

LPFO

- Effective on 31 Aug 2020
- An alternative investment vehicle for private fund managers in APAC
- A regionally domiciled fund vehicle



STATISTIC

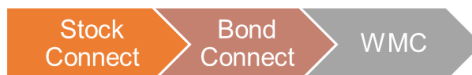
As of today, the number of registration has reached **210!**

WMC

- A cross-boundary pilot scheme
- Announced on 29 Jun 2020



The Mainland's Capital Account Liberalisation



IMPLICATION

- ✓ A major breakthrough in Hong Kong's **offshore RMB** business development
- ✓ A significant step to foster **closer financial cooperation in the Greater Bay Area**

About InvestHK

InvestHK

InvestHK's vision is to strengthen Hong Kong's status as the leading international business location in Asia. Our mission is to attract and retain foreign direct investment which is of strategic importance to the economic development of Hong Kong. In all our services, we apply the following core values: passion, integrity, professionalism, customer service, business friendliness and responsiveness.

“ Our teams around the world are ready to support both existing and new investors to capture these opportunities ”

Support from InvestHK's Financial Services Team

We want companies to succeed by leveraging the city's strengths as the ideal business hub to access business opportunities in Mainland China and across the region. We partner with clients on a long-term basis and offer free, customised and confidential services in all stages:

Watch our video here:



About Global Family Office Team

FamilyOfficeHK

In order to support family offices from around the world to set up a presence in Hong Kong, InvestHK has set up a Global Family Office team, which will collaborate with key industry stakeholders to step up promotion initiatives with the following key objectives.

The Chief Executive's 2020 Policy Address:

“To further develop the family office business in Hong Kong, InvestHK will set up a dedicated team to step up promotion of our advantages in local and other major markets, and offer one-stop support services to family offices which are interested in establishing a presence here.”

FamilyOfficeHK

Collaborative Effort

- Invest Hong Kong
- Financial Services and the Treasury Bureau
- Hong Kong Monetary Authority
- Securities and Futures Commission
- Financial Services Development Council

- Position Hong Kong as a leading family office hub in Asia
- Provide a “one-stop” platform with exclusive and bespoke services to Mainland and overseas investors to facilitate their setting up of family offices in the city
- Encourage and support family offices already established in Hong Kong to expand their business in the city
- Facilitate discussions between family offices and key stakeholders, regulators and government departments
- Building significant family offices presence in Hong Kong

About Vistra



With a laser focus on minimising risk and enhancing efficiencies, Vistra provides expert advisory and administrative support to Fund, Corporate, Capital Market and Private Wealth clients; helping capital flow, protecting investors and safeguarding assets across multiple industries.

We support our clients across the below five sectors.

We have extensive experiences in providing comprehensive corporate services including market entry solutions, company secretarial services for IPOs and listed companies, fund setup and administration, as well as company incorporations and management.



We cover every aspect of private equity administration, giving you the confidence to focus on your investments.

Private Equity



We navigate challenge and complexity to efficiently grow, control, simplify and transact your business.

Corporate



We have over US\$9.6 billion of Real Estate assets under administration and a deep understanding of its nuance and complexities.

Real Estate



We work with you to create, preserve and transfer your family's wealth, wherever you are in the world.

Private Wealth



We're one of the largest global independent service providers, helping you make decisions at pace and with confidence.

Capital Markets

From our physical presence in over 45 jurisdictions across Asia-Pacific, Europe, the Americas, Middle East and Africa, we manage over 200,000 legal entities. Our clients entrust us to administer assets valued at more than US\$370 billion.

60% of the top 300 private equity firms as our clients and partners. Through our deep understanding of risk and the opportunity this brings, we deliver the confidence and security our clients and the markets need to seize a world of enduring opportunity.

Vistra counts nearly 5,000 professionals as colleagues. Driven by a culture of high values, learning, continual improvement and focus on operational excellence, we work seamlessly with our clients for the long-term. We count 30% of the top 50 Fortune Global 500 companies and



Contacts

Dixon Wong

*Head of Financial Services and
Global Head of Family Office
InvestHK*

T: +852 3107 1085

E: DixonhtWong@investhk.gov.hk

Edmond Chiu

*Executive Director
Vistra Hong Kong*

T: +852 2848 0202

E: Edmond.Chiu@vistra.com

Keri Wong

*Associate Director
Vistra Hong Kong*

T: +852 2848 0243

E: Keri.Wong@vistra.com



For more information, please visit our websites.

Invest Hong Kong: www.investhk.gov.hk

Vistra Hong Kong: www.vistra.com