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# HOW ROBUST CORPORATE GOVERNANCE SUPPORTS THE NEW HONG KONG LIMITED PARTNERSHIP FUND REGIME

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The introduction of new domestic fund regimes in two Asian financial centres, which includes Hong Kong's limited partnership legislation for private funds, has renewed focus on the benefits of a robust corporate governance framework for investment funds, including the need for experienced, local independent directors.

The Hong Kong government enacted the limited partnership fund regime in the summer of 2020 in order to modernise its legal and regulatory framework for domestic private funds, including private equity, venture capital and real estate funds. In updating the legislation, which had previously placed considerable constraints on private funds operating from Hong Kong, the jurisdiction has continued its evolution as a leading international financial centre. It also mirrors developments in Singapore, which in 2019 introduced the Variable Capital Company ("VCC") structure, together with a range of financial incentives designed to encourage managers to set up new investment funds or to redomicile existing funds to Singapore.

Significantly, the Hong Kong government announced in January 2021 that it would set a conditional concessionary profits tax on carried interest at 0%<sup>1</sup>, which alongside the new regulatory regime, is

designed to encourage private funds to be established using Hong Kong entities.

Hong Kong's new limited partnership regime has also coincided with sustained demand for locally-resident independent directors. This is reflective both of the continued drive towards higher governance standards in Asia, with an understanding of its crucial role in attracting Western institutional capital, alongside the advantages of engaging independent directors who are specialists in alternative investment funds and fully conversant with global best practice.

The Hong Kong limited partnership fund will not have separate legal personality, mirroring the approach taken by other established investment fund centres. Partners will have contractual freedom in terms of the operations of the fund, which will be governed by a limited partnership agreement. With no minimum capital requirements, there are also few restrictions on

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<sup>1</sup> The Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021 passed its third reading in the Hong Kong Legco on 28 April 2021 and became law on Friday, 7 May 2021.

the type of investment or the fund's strategy, while the fund must also have a registered office in Hong Kong where communications and notices may be sent.

Key requirements for a fund structured under the Hong Kong limited partnership regime are that it be constituted by at least one general partner with unlimited liability for the debts and liabilities of the fund, together with at least one limited partner who enjoys limited liability for the debts and liabilities of the fund provided that such limited partner does not become involved in the conduct of the fund's business with third parties. Limited partners may share in the profits of the fund and as they do not control the fund's assets, they are not typically responsible for the fund's debts or obligations beyond the amount they have agreed in the limited partnership agreement.

The general partner's responsibilities include appointing an investment manager, which must be a Hong Kong resident, a Hong Kong registered company or it can be a registered non-Hong Kong company. There is a duty to appoint an auditor, ensure proper custody of assets and appoint an authorised representative where the general partner itself is another limited partnership fund. The general partner must also appoint a responsible person to undertake and oversee the fund's anti-money laundering activities. Once up and running, annual returns for the fund must be filed to the Companies Registry by the general partner within 42 days of the anniversary of its registration and notifications of any material changes to the fund must be filed within 15 days of the change taking place.

As things stand, with a positive backdrop for the private funds sector as global growth returns, our long-standing presence and commitment to Asia means the Maples Group is well-placed to support clients looking to use the new structure.

Our independent directors are distinguished by their deep expertise across a full range of private equity, real estate and venture capital funds, encompassing all types of structures and investment strategies. Their experience of dealing with almost every conceivable

fund scenario, throughout the life of the fund, provides great comfort to investors. The ability to draw on this expertise and to provide time-zone sensitive, hands-on guidance, in addition to local language capabilities, enables us to provide a market-leading level of support and guidance to domestic funds in Hong Kong, which traditionally has been served by local directors who are not necessarily specialists in alternative funds. We offer an institutional class service, robust policies and procedures along with dedicated operational, technology and compliance professionals who can draw on the knowledge and experience of our international network.

Our fiduciary services to investment funds in Asia include the provision of experienced directors to act on the board of the general partner to a partnership, accounting and financial reporting services, as well as company secretarial and board support services to enhance governance and reduce the administrative burden on managers, allowing them to focus on core business objectives. Additionally, our fund services team in Hong Kong is also able to offer the full suite of fund administration services to Hong Kong limited partnership funds.

As Hong Kong continues to evolve as a financial centre, with its new limited partnership fund regime inspired by the most successful financial jurisdictions, we remain committed to providing clients with the guidance and high-touch service they have come to rely on and the support where and when they need us.

For more information on our services to Hong Kong limited partnerships, please [click here](#) to get in touch with our team.

## About the Author

### Charlie Sparrow

Charlie Sparrow is Regional Head of Fiduciary, Hong Kong and is responsible for driving the growth of the Maples Group's fiduciary services business in Asia. He is a qualified lawyer with more than 15 years' experience in the financial services and international

structuring sector with extensive expertise in British Virgin Islands and Cayman Islands law trust structures, including associated corporate and regulatory matters. He works with individuals, companies, financial institutions, leading law and accountancy firms, family offices and investment managers on a variety of investment funds, corporate and finance vehicles as

well as private client structures. Previously, Charlie was a lawyer for the Maples Group in London and Hong Kong and prior to that, he was a lawyer at Charles Russell LLP in London.