

## NOTES AND INSTRUCTIONS – SUPPLEMENTARY FORM (S11)

1. The basis period must be the same as that stated in item 7.2 of the Profits Tax Return.
2. “Multinational enterprise group” means a group that includes:
  - (a) two or more enterprises of which the tax residence is in different jurisdictions; or
  - (b) an enterprise that is resident for tax purposes in one jurisdiction and is subject to tax in another jurisdiction with respect to the business carried out through a permanent establishment in that other jurisdiction.
3. This refers to the total consolidated group revenue as reflected in the group’s consolidated financial statements for the period that ends immediately before the basis period. For a group with its ultimate parent entity resident in Hong Kong, the threshold amount of the total consolidated group revenue is HK\$6.8 billion. For a group with its ultimate parent entity resident in a jurisdiction other than Hong Kong, the threshold amount is the one specified under the laws or regulations of that jurisdiction for country-by-country reporting or an amount equivalent to EUR750 million as at January 2015.
4. “Qualifying ship leasing activity” means:
  - (a) a ship leasing activity carried out by a corporation in the ordinary course of its business carried on in Hong Kong; and
  - (b) the ship concerned is of over 500 gross tonnage and navigating solely or mainly outside the waters of Hong Kong.
5. “Operating lease” means an arrangement as defined under section 14O(1) of the Inland Revenue Ordinance (Cap. 112) (“IRO”).
6. “Funding lease” means an arrangement as defined under section 14O(1) of the IRO.
7. “Connected person” means a person as defined in section 14O(1) of the IRO.
8. “Associate” means a person as defined in section 14O(1) of the IRO.
9. The exception cases apply where:
  - (a) the ships were acquired by the Corporation from the lessee or its associate (end-user) at a consideration not more than the price paid by the end-user to the supplier; and
  - (b) allowances under Part 6 of the IRO have not been granted to the end-user in respect of the ships.
10. “Total income” means all types of income including lease payment, finance charge, interest income, service income, exchange gains, hedging gains, other ordinary business income, proceeds from the sale of capital assets and other non-taxable income derived from any business activities of the Corporation.
11. “Gross lease payments” means the aggregate amount of the gross lease payments (whether or not they are periodic payments and including any sum payable under a residual value guarantee) earned by or accrued to the Corporation under operating leases during the basis period concerned.
12. “Outgoings and expenses” means the aggregate amount of any outgoings and expenses deductible under Part 4 of the IRO to the extent to which they are incurred during the basis period concerned by the Corporation in the production of the gross lease payments under operating leases.
13. If the 20% tax base concession applies, the amount of net lease payments earned should be computed as follows:  
(Gross lease payments [section 4.3] – Outgoings and expenses [section 4.4]) x 20%
14. “Gross payments of finance charges or interest” means the aggregate amount of the gross payments of finance charges or interest (whether or not they are periodic payments) earned by or accrued to the Corporation under a funding lease during the basis period concerned.
15. “Outgoings and expenses” means the aggregate amount of any outgoings and expenses deductible under Part 4 of the IRO to the extent to which they are incurred during the basis period concerned by the Corporation in the production of the gross payments of finance charges or interest under finance leases.
16. This amount refers to the disposal gain in respect of a ship that has been used by the Corporation for carrying out a qualifying ship leasing activity for a continuous period of at least 3 years immediately prior to its disposal by the Corporation and would be treated as a capital gain not chargeable to profits tax.

17. “Concessionary trading receipts” means the trading receipts and other sums in respect of which assessable profits are chargeable at concessionary tax rate (including a tax rate of 0%) under section 14P(1) of the IRO.
18. “Normal trading receipts” means any trading receipts and other sums, other than concessionary trading receipts.
19. The Relevant Activities refer to the core income generating activities undertaken by the Corporation in relation to its business as a qualifying ship lessor for producing qualifying profits chargeable at concessionary tax rate (including a tax rate of 0%).
20. A person is associated with another person if one of the relevant persons was participating in the management, control or capital of the other relevant person, or the same person or persons was or were participating in the management, control or capital of each of the relevant persons.
21. An example of such situation is that the employees concerned were employed by an associated person of the Corporation and were seconded by the associated person to the Corporation for the carrying out of the Relevant Activities. The remunerations of the employees were fully or partially borne by the Corporation.
22. An example of such situation is that an associated person of the Corporation engaged in the provision of services related to ship leasing. The Relevant Activities were carried out by the associated person at a fee charged to the Corporation on an arm’s length basis.
23. Schedule 17FA of the IRO stipulates that the number of full-time employees in Hong Kong who carry out the Relevant Activities and have the necessary qualifications must be adequate and in any event not less than 2 in the basis period concerned.
24. If associated person(s) was/were involved in the carrying out of the Relevant Activities, the details reported should include those of the employees of the associated person(s) who carried out the Relevant Activities.
25. This number refers to the “average number of employees” of the Corporation which shall be calculated as: the aggregate of the number of employees as at the end of each calendar month in the basis period concerned as divided by the number of calendar months in that basis period.
26. Schedule 17FA of the IRO stipulates that the total amount of operating expenditure incurred in Hong Kong for the Relevant Activities must be adequate and in any event not less than HK\$7,800,000 in the basis period concerned.
27. If associated person(s) was/were involved in the carrying out of the Relevant Activities, the amount of operating expenditure reported should include the remunerations borne by the Corporation in respect of the employees of the associated person(s) who carried out the Relevant Activities (see Note 21), and/or the service fee incurred by the Corporation for the Relevant Activities carried out by the associated person(s) (see Note 22).
28. This supplementary form must be signed by the same person signing the tax return.