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HONG KONG SPECIAL ADMINISTRATIVE REGION

ORDINANCE No. 12 OF 2005

L.S.

Donald TSANG
Chief Executive
7 July 2005

An Ordinance to amend the Companies Ordinance.

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Enacted by the Legislative Council.

1. Short title and commencement

(1) This Ordinance may be cited as the Companies (Amendment) Ordinance 2005.

(2) This Ordinance shall come into operation on a day to be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

2. Interpretation

Section 2(5) of the Companies Ordinance (Cap. 32) is amended by repealing “or concurrence”.

3. Section added

The following is added—

“2B. Construction of references to parent company, etc.

(1) A reference in this Ordinance to parent company, parent undertaking or subsidiary undertaking shall be construed in accordance with the Twenty-third Schedule.

(2) A reference in a provision specified under subsection (3) for the purposes of this subsection—

- (a) to a holding company shall be deemed to include a parent company;
- (b) to a subsidiary or subsidiary company shall be deemed to include a subsidiary undertaking; and
- (c) to shares or an undertaking shall be construed in accordance with the Twenty-third Schedule.

(3) The provisions specified for the purposes of subsection (2) are sections 123, 124, 125, 126, 127, 128, 129, 129A, 129D, 133, 140, 141, 161, 161B, 161BA, 163B and 163D and the Second Schedule, the Third Schedule, the Fourth Schedule and the Tenth Schedule.

(4) The Secretary for Financial Services and the Treasury may, by notice published in the Gazette, amend subsection (3).”.

4. General provisions as to contents and form of accounts

Section 123 is amended—

- (a) in subsection (3), by repealing “in the following provisions of this section or”;
- (b) by repealing subsection (4) and substituting—

“(4) Where compliance with the requirements of the Tenth Schedule and other requirements of this Ordinance as to the matters to be included in a company’s balance sheet and profit and loss account or in a statement annexed to those accounts—

- (a) would not be sufficient to give a true and fair view of the state of affairs or the profit or loss of the company; or
- (b) is inconsistent with the requirement to give a true and fair view of the state of affairs or the profit or loss of the company,

then—

- (c) in the case of paragraph (a), additional information that is necessary to give a true and fair view thereof shall be given in the accounts or statement, as the case may require; and

- (d) in the case of paragraph (b), the directors of the company shall depart from those requirements to the extent that is necessary to give a true and fair view thereof with the reasons for and particulars and effects of such departure to be given in the accounts or in a statement annexed to those accounts.”.

5. Contents of group accounts

Section 126 is amended—

- (a) in subsection (3), by repealing everything after “information” and substituting a full stop;

- (b) by adding—

“(4) Where compliance with the requirements of the Tenth Schedule and other requirements of this Ordinance as to the matters to be included in a company’s group accounts or in a statement annexed to the group accounts—

- (a) would not be sufficient to give a true and fair view of the state of affairs or the profit or loss of the company and its subsidiaries; or
(b) is inconsistent with the requirement to give a true and fair view of the state of affairs or the profit or loss of the company and its subsidiaries,

then—

- (c) in the case of paragraph (a), additional information that is necessary to give a true and fair view thereof shall be given in the group accounts or statement, as the case may require; and
(d) in the case of paragraph (b), the directors of the company shall depart from those requirements to the extent that is necessary to give a true and fair view thereof with the reasons for and particulars and effects of such departure to be given in a statement annexed to the company’s group accounts.”.

6. Financial year of holding company and subsidiary

Section 127(2) is amended by adding “which is a company for the purposes of this Ordinance” after “a holding company’s subsidiary”.

7. Particulars to be shown in company’s accounts in relation to subsidiaries

Section 128 is amended—

- (a) in subsection (1)(b), by adding “where the subsidiary is a body corporate,” before “the”;
- (b) in subsection (1), by adding—
 - “(ba) where the subsidiary is not a body corporate, the address of its principal place of business;”;
- (c) by repealing subsection (2)(a) and substituting—
 - “(a) shares of an undertaking which is a body corporate shall be treated as being held, or as not being held, by another undertaking if they would, by virtue of section 2(4), (5), (6) and (7), be treated as being held or, as the case may be, as not being held by that other undertaking for the purpose of determining whether the first-mentioned undertaking is its subsidiary; and”;
- (d) by repealing subsection (3) and substituting—
 - “(3) Subsection (1) shall not require the disclosure of information with respect to an undertaking which—
 - (a) is the subsidiary of another undertaking; and
 - (b) is established under the laws of a place outside Hong Kong or carries on business outside Hong Kong,if—
 - (c) the disclosure would, in the opinion of the directors of that other undertaking, be harmful to the business of that other undertaking or of any of its subsidiaries; and
 - (d) the Financial Secretary agrees that the information need not be disclosed.”.

8. Section substituted

Section 129A is repealed and the following substituted—

“129A. Particulars to be shown in subsidiary company’s accounts in relation to its ultimate parent undertaking

(1) Subject to subsection (2), where, at the end of its financial year, a company is the subsidiary of another undertaking, there shall be stated in, or in a note on, or statement annexed to, the company’s accounts laid before it in general meeting—

- (a) the name of the undertaking regarded by the directors as being the company’s ultimate parent undertaking; and
- (b) if known to them—
 - (i) where the undertaking is a body corporate, the country in which it is incorporated; and
 - (ii) where the undertaking is not a body corporate, the address of its principal place of business.

(2) Subsection (1) shall not require the disclosure by a company which carries on business outside Hong Kong of information with respect to the undertaking regarded by the directors as being the company’s ultimate parent undertaking if—

- (a) the disclosure would, in their opinion, be harmful to the business of that parent undertaking or of the company or any other of that parent undertaking’s subsidiaries; and
- (b) the Financial Secretary agrees that the information need not be disclosed.”.

9. Directors’ report to be attached to balance sheet

Section 129D is amended—

- (a) in subsection (3)(h), by repealing “, if” and substituting “, the company”;
- (b) in subsection (6)—
 - (i) by repealing “body corporate” and substituting “undertaking”;
 - (ii) by repealing “body” and substituting “undertaking”.

10. Disqualifications for appointment as auditor

Section 140(2)(d) is repealed and the following substituted—

“(d) a person who is, by virtue of paragraph (a) or (b), disqualified for appointment as auditor of any other undertaking which is—

- (i) a subsidiary of the company;
 - (ii) a parent undertaking of the company; or
 - (iii) a subsidiary of the company's parent undertaking,
- or would be so disqualified if the undertaking were a company.”.

11. Particulars in accounts of directors' emoluments, pensions, etc.

Section 161(9)(a) is amended by repealing “body corporate” where it twice appears and substituting “undertaking”.

12. Duty of director or past director to disclose payment for loss of office, etc., made in connexion with transfer of shares in company

Section 163B(1)(b) is repealed and the following substituted—

- “(b) an offer made by or on behalf of some other undertaking with a view to the company becoming its subsidiary or a subsidiary of its parent undertaking;”.

13. Power to amend requirements as to accounts, Schedules, tables, forms and fees

Section 360(5) is amended by adding “or Twenty-third” after “Sixteenth”.

14. Form of Statement in lieu of Prospectus to be delivered to Registrar by a Private Company on becoming a Public Company and Reports to be set out therein

The Second Schedule is amended—

- (a) by repealing “[s. 30]” and substituting “[ss. 2B & 30]”;
- (b) in Part II, in paragraph 2—
 - (i) in sub-paragraph (1), by repealing “shares in a body corporate” and substituting “shares in an undertaking”;
 - (ii) by repealing “body corporate” wherever it appears and substituting “undertaking”;
 - (iii) in sub-paragraph (3), by repealing “body corporate’s” wherever it appears and substituting “undertaking’s”;
- (c) in Part III—

- (i) in paragraph 4—
 - (A) by repealing “a body corporate” and substituting “an undertaking”;
 - (B) by repealing “body corporate” and substituting “undertaking”;
- (ii) in paragraph 6, by repealing “holding company or of a subsidiary of the company’s holding company” and substituting “parent undertaking or of a subsidiary of the company’s parent undertaking”.

15. Matters to be Specified in Prospectus and Reports to be set out therein

The Third Schedule is amended—

- (a) by repealing “[ss. 38 & 342]” and substituting “[ss. 2B, 38, 38A, 38D, 42, 342, 342A, 342C & 360 & 2nd, 4th, 20th & 21st Schs.]”;
- (b) in Part II, in paragraph 33, by repealing “body corporate” wherever it appears and substituting “undertaking”;
- (c) in Part III—
 - (i) in paragraph 43, by repealing “holding company or of a subsidiary of the company’s holding company” and substituting “parent undertaking or of a subsidiary of the company’s parent undertaking”;
 - (ii) in paragraph 46—
 - (A) in sub-paragraph (b), by repealing “holding company or of a subsidiary of the company’s holding company” and substituting “parent undertaking or of a subsidiary of the company’s parent undertaking”;
 - (B) in sub-paragraph (c)(i), by repealing “holding company or a subsidiary of the company’s holding company” and substituting “parent undertaking or a subsidiary of the company’s parent undertaking”.

16. Form of Statement in lieu of Prospectus to be delivered to Registrar by a Company which does not issue a Prospectus or which does not go to Allotment on a Prospectus Issued, and Reports to be set out therein

The Fourth Schedule is amended—

- (a) by repealing “[s. 43]” and substituting “[ss. 2B & 43]”;

- (b) in Part II, in paragraph 2—
 - (i) in sub-paragraph (1), by repealing “a body corporate” and substituting “an undertaking”;
 - (ii) by repealing “body corporate” wherever it appears and substituting “undertaking”;
 - (iii) in sub-paragraph (3), by repealing “body corporate’s” wherever it appears and substituting “undertaking’s”;
- (c) in Part III—
 - (i) in paragraph 4—
 - (A) by repealing “a body corporate” and substituting “an undertaking”;
 - (B) by repealing “body corporate” and substituting “undertaking”;
 - (ii) in paragraph 6, by repealing “holding company or of a subsidiary of the company’s holding company” and substituting “parent undertaking or of a subsidiary of the company’s parent undertaking”.

17. Accounts

The Tenth Schedule is amended—

- (a) in the square brackets, by adding “2B,” before “48B”;
- (b) in Part II—
 - (i) in paragraph 18(1) and (5), by repealing “body corporate” wherever it appears and substituting “undertaking”;
 - (ii) in paragraph 19—
 - (A) by repealing “body corporate” wherever it appears and substituting “undertaking”;
 - (B) by repealing “bodies corporate” where it twice appears and substituting “undertakings”.

18. Twenty-third Schedule added

The following is added—

“TWENTY-THIRD SCHEDULE [ss. 2B & 360]

PARENT AND SUBSIDIARY UNDERTAKINGS

1. Interpretation

(1) For the purposes of the provisions specified under section 2B(3) of this Ordinance and this Schedule—

“parent company” (母公司) means a parent undertaking which is a company;

“parent undertaking” (母企業) shall be construed in accordance with section 2;

“shares” (股、股份) shall be construed as a reference to—

- (a) in relation to an undertaking with a share capital, the allotted shares;
- (b) in relation to an undertaking with capital in the form other than share capital, the rights to share in the capital of the undertaking; and
- (c) in relation to an undertaking without any capital, the interest—
 - (i) conferring any right to share in the profits or liability to contribute to the losses of the undertaking; or
 - (ii) giving rise to an obligation to contribute to the debts or expenses of the undertaking in the event of a winding up;

“undertaking” (企業) means—

- (a) a body corporate;
- (b) a partnership; or
- (c) an unincorporated association carrying on a trade or business, whether for profit or not.

(2) In construing any references to an undertaking which is not a company for the purposes of this Ordinance, other expressions appropriate to companies shall be construed, in relation to that undertaking, as references to the corresponding persons, officers, documents or organs, as the case may be, appropriate to undertakings of that description.

2. Parent undertaking and subsidiary undertaking

(1) An undertaking is a parent undertaking (“parent undertaking”) in relation to another undertaking (“subsidiary undertaking”) if—

- (a)
 - (i) in the case where both the parent undertaking and the subsidiary undertaking are bodies corporate, the subsidiary undertaking is a subsidiary of the parent undertaking by virtue of section 2(4), (5), (6) and (7) of this Ordinance; or
 - (ii) in any other case, the parent undertaking—
 - (A) holds a majority of the voting rights in the subsidiary undertaking;
 - (B) is a member of the subsidiary undertaking and has the right to appoint or remove a majority of its board of directors; or
 - (C) is a member of the subsidiary undertaking and controls alone, pursuant to an agreement with other shareholders or members, a majority of the voting rights in the subsidiary undertaking; or
 - (b) the parent undertaking has the right to exercise a dominant influence over the subsidiary undertaking by virtue of—
 - (i) the provisions contained in the subsidiary undertaking's memorandum or articles or equivalent constitutional documents; or
 - (ii) a control contract.
- (2) For the purposes of subsection (1)(a)(ii), an undertaking shall be treated as a member of another undertaking ("the relevant undertaking"), if—
- (a) any of its subsidiary undertakings is a member of the relevant undertaking; or
 - (b) any shares in the relevant undertaking are held by a person acting on behalf of the first-mentioned undertaking or any of its subsidiary undertakings.
- (3) An undertaking shall be treated as the parent undertaking of another undertaking if a subsidiary undertaking of the first-mentioned undertaking is, or is to be treated as, the parent undertaking of that other undertaking; and references to a subsidiary undertaking of the first-mentioned undertaking shall be construed accordingly.
- (4) Sections 3 to 10 contain provisions explaining expressions used in this section and otherwise supplementing this section.

3. **Voting rights in undertaking**

(1) For the purposes of section 2(1)(a)(ii)(A) and (C), the references to the voting rights in an undertaking shall be construed as references to the rights conferred on shareholders in respect of their shares or, in the case of an undertaking not having a share capital, on members, to vote at general meetings of the undertaking on all, or substantially all, matters.

(2) For the purposes of subsection (1), where an undertaking which does not have general meetings at which matters are decided by the exercise of voting rights, the references to holding a majority of the voting rights in the undertaking shall be construed as references to having the right under the constitution of the undertaking to direct the overall policy of the undertaking or to alter the terms of its constitution.

4. **Right to appoint or remove majority of directors**

For the purposes of section 2(1)(a)(ii)(B)—

- (a) the reference to the right to appoint or remove a majority of the board of directors shall be construed as a reference to the right to appoint or remove directors holding a majority of the voting rights at meetings of the board on all, or substantially all, matters;
- (b) an undertaking shall be treated as having the right to appoint to a directorship if—
 - (i) a person's appointment to it follows necessarily from his appointment as a director of the undertaking; or
 - (ii) the directorship is held by the undertaking itself; and
- (c) a right to appoint or remove a directorship which is exercisable only with the consent of another person shall be left out of account unless no other person has a right to appoint or, as the case may be, remove in relation to that directorship.

5. **Right to exercise dominant influence**

For the purposes of section 2(1)(b)—

- (a) an undertaking shall not be regarded as having the right to exercise a dominant influence over another undertaking unless it has a right to give directions with respect to the operating and financial policies of that other undertaking which the directors are, or a majority of the directors is, obliged to comply with whether or not they are for the benefit of that other undertaking; and

- (b) a “control contract” (控制合約) means a contract in writing conferring such a right which is—
- (i) of a kind authorized by the memorandum or articles, or equivalent constitutional documents, of the undertaking in relation to which the right is exercisable; and
 - (ii) permitted by the law under which that undertaking is established.

6. Rights exercisable only in certain circumstances

(1) For the purposes of this Schedule but without prejudice to subsection (2), rights which are exercisable only in certain circumstances shall be taken into account only—

- (a) when the circumstances have arisen, and for so long as they continue to obtain; or
- (b) when the circumstances are within the control of the person having the rights.

(2) Rights which are normally exercisable but are temporarily incapable of exercise shall continue to be taken into account.

7. Rights held by one person on behalf of another

For the purposes of this Schedule—

- (a) rights held by a person in a fiduciary capacity shall be treated as not held by him;
- (b) rights held by a person as nominee for another shall be treated as held by the other; and
- (c) rights shall be treated as held as nominee for another if they are exercisable only on his instructions or with his consent.

8. Rights attached to shares by way of security

Where any rights referred to in this Schedule are attached to shares held by way of security, the rights shall be treated as held by the person providing the security, if—

- (a) apart from the right to exercise them for the purpose of preserving the value of the security, or of realizing it, the rights are exercisable only in accordance with his instructions; or

- (b) the shares are held in connection with the granting of loans as part of normal business activities and apart from the right to exercise them for the purpose of preserving the value of the security, or of realizing it, the rights are exercisable only in his interests.

9. Rights attributed to parent undertaking

(1) For the purposes of section 2, rights shall be treated as held by a parent undertaking if they are held by any of its subsidiary undertakings.

(2) Nothing in section 7 or 8 shall be construed as requiring rights held by a parent undertaking to be treated as held by any of its subsidiary undertakings.

(3) For the purposes of section 8, rights shall be treated as being exercisable in accordance with the instructions of or in the interests of an undertaking if they are exercisable in accordance with the instructions of or, as the case may be, in the interests of any group undertaking.

(4) In this section, “group undertaking” (企業集團), in relation to an undertaking (“relevant undertaking”), means an undertaking which is—

- (a) a parent undertaking or subsidiary undertaking of the relevant undertaking; or
- (b) a subsidiary undertaking of any parent undertaking of the relevant undertaking.

10. Supplementary

References in any provision of sections 7, 8 and 9 to rights held by a person include rights falling to be treated as held by him by virtue of any other provision of those sections but not rights which by virtue of any such provision are to be treated as not held by him.”.

19. Transitional provisions

(1) The amendments made by this Ordinance shall not apply in relation to a company (including a company which is an insurer within the meaning of section 2(1) of the Insurance Companies Ordinance (Cap. 41)) until the start of the company’s first financial year beginning after the expiration of the 30 days immediately following the commencement of this section.

(2) For the avoidance of doubt, it is hereby declared that any provision of the principal Ordinance amended by this Ordinance shall, as it is in force from time to time apart from that amendment, apply in relation to a company until that amendment applies in relation to the company.

Consequential Amendments

Specification of Public Offices

20. Schedule amended

The Specification of Public Offices (Cap. 1 sub. leg. C) is amended, in the Schedule where the Financial Secretary is the specified public office, by repealing “Companies Ordinance (Chapter 32), sections 123(4), 124(2), 126(2) and (3)” and substituting “Companies Ordinance (Chapter 32), sections 124(2)”.

Insurance Companies Ordinance

21. Accounts and Statements

The Third Schedule to the Insurance Companies Ordinance (Cap. 41) is amended by adding—

“1A. (1) A reference in Part 1, 2, 3 or 4 of this Schedule to parent company or subsidiary undertaking shall be construed in accordance with section 2B of the Companies Ordinance (Cap. 32) as read with the Twenty-third Schedule to that Ordinance.

(2) A reference in a provision specified under subparagraph (3) for the purposes of this subparagraph—

(a) to a holding company shall be deemed to include a parent company; and

(b) to a subsidiary or subsidiary company shall be deemed to include a subsidiary undertaking.

(3) The provisions specified for the purposes of subparagraph (2) are—

(a) paragraph 4(1)(d) and (e)(iii) and (1AD)(f) and (g)(iii) of Part 1 of this Schedule;

(b) paragraph 9(a), (d), (e), (f), (j) and (l) of Part 2 of this Schedule;

(c) the heading, and paragraphs 10, 11 and 12, of Part 3 of this Schedule;

(d) paragraph 16(b)(ii), (d)(i), (e) and (g) of Part 4 of this Schedule.”.