

Crowe Horwath™

國富浩華 (香港) 會計師事務所有限公司
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Our Ref: CC/EL/ml/CH0615/11

Your Ref: CB1/BC/3/10

19 August 2011

The Clerk to the Bills Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong

Attention: Ms. Connie SZETO

Dear Ms. SZETO,

**Comment on Companies Bill regarding the preparation of
simplified financial and directors' reports**

Based on your letter dated 28 July 2011 regarding the invitation for us to provide written views on Clauses 358 to 362 (under Part 9) and Schedule 3 of the Companies Bill ("specific parts of the Bill"), we would like to submit our views as follows:

- (1) We support the specific parts of the Bill as they are not only relaxing the criteria for small companies to prepare simplified financial and directors' reports, but also allowing the small private group of companies and small companies limited by guarantee to enjoy the simplified reporting requirements and economic benefits not to adopt the full HKFRS.
- (2) We consider the specific parts of the Bill may also enhance the consistency of the requirements between the Companies Bill and SME-FRF for small private companies because their eligibility criteria are similar.

Companies Bill

According to Clause 359 (1), any 2 of the conditions specified in section 1(1) of Schedule 3 are satisfied in its first financial year, the company is qualified as a small private company for that first financial year, and every subsequent financial year, until it is disqualified under subsection (4)

Schedule 3 section 1(1)

- (a) *that the amount of the company's total revenue for the financial year, as would be reflected in the company's annual financial statements for the financial year if the company is qualified as a small private company for the financial year, does not exceed \$50 million;*
- (b) *that the amount of the company's total assets at the date of the statement of financial position for the financial year, as would be reflected in the company's annual financial statements for the financial year if the company is qualified as a small private company for the financial year, does not exceed \$50 million; and*
- (c) *that the average number of the company's employees during the financial year does not exceed 50.*

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(2) (Continued)

SME – FRF

According to paragraph 24, an entity is considered to be an SME if it does not exceed any two of the following:

- (a) total annual revenue of HK\$50 million.
 - (b) total assets of HK\$50 million at the balance sheet date.
 - (c) 50 employees.
- (3) There are still limitations for companies to satisfy the qualifying conditions under Schedule 3 of the Companies Bill for 2 consecutive years before they can enjoy the simplified reporting requirements. We consider the limitations included in Clauses 359 (3), 360 (3), 361 (3) and 362 (3) may also be relaxed if appropriate to benefit both preparers and users.
- (4) We also hope the Companies Bill can state clearly
- (i) the Group of private companies (under Clause 361) and Group of small guarantee companies (under Clause 362) containing overseas incorporated members of the group can still be qualified for the reporting exemption.
 - (ii) the company with all the shareholders agree in writing and is not disqualified under Clause 358 (4) of the Companies Bill, can still enjoy the reporting exemption irrespective of its size (exemption similar to section 141D of the existing Companies Ordinance)
- (5) Please consider to allow the groups of small private companies and small guarantee companies not to prepare consolidated financial statements if they can meet any one of the conditions as stated in s124 (2) (a) or (b) of the existing Companies Ordinance.

Should you have any questions, please do not hesitate to contact Mr. Charles Chan at 2894 6818 or Mr. Edmund Li at 2894 6895.

Yours faithfully
For and on behalf of
Crowe Horwath (HK) CPA Limited



Chan Wai Dune, Charles
Co-Chairman and CEO