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The Bills Committee on Companies Bill
Legislative Council
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8 Jackson Road
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Your ref CB1/BC/3/10

Our ref CSM/20

Contact Catherine Morley
2826 7228 (direct line)

18 August 2011

By fax and post

Dear Sirs

Bills Committee on Companies Bill
Seeking views on preparation of simplified financial and directors' reports

KPMG appreciates the opportunity to confirm our views on Clauses 358 to 362 and Schedule 3 of the Companies Bill, as requested in your letter dated 28 July 2011.

In respect of the requirements related to simplified financial statements, we note that we commented to the Bills Team on the draft Companies Bill during the Second Phase Consultation in our letter dated 4 August 2010.

In that letter we supported the proposals to allow small private companies and groups to prepare simplified financial statements in accordance with the HKICPA's SME Financial Reporting Framework and Financial Reporting Standard (SME FRF and FRS). However, we expressed concern at extending the relief from the preparation of full financial statements to all sizes of groups, without setting any upper limit on the size of the entity. Our concerns were as per the reservations mentioned in your letter, being that the SME FRF and FRS were written with the needs of small and medium-sized enterprises, and the typical simple characteristics of their business, in mind and may therefore not be suitable for much larger groups. Assuming that the 75% shareholder vote proposal for companies that were larger than the SME size criteria would be retained, in our response at that time we suggested that an upper limit could take the form of a specified multiple of the size criteria set for the small private companies and groups who did not need such shareholder approval, for example five times that lower limit.

We noted that in the gazetted Companies Bill a decision was taken to remove entirely the possibility of a 75% shareholder vote allowing larger companies and groups to adopt the SME FRF and FRS. This has the advantages of simplifying the provisions of the proposed Ordinance and maintaining a closer relationship between the accounting requirements of the proposed Ordinance and those issued by the HKICPA. It also is consistent with international practice of allowing simple "properly prepared" financial statements which follow basic book-keeping requirements only for the smallest of companies, whilst larger private companies and groups will follow either the HKFRS for Private Entities (adopted from the IFRS for SMEs issued by

the International Accounting Standards Board (IASB) or full HKFRSs (adopted from full IFRSs issued by the IASB) and prepare financial statements which "give a true and fair view". We therefore welcomed the position taken by the Administration in the Companies Bill as currently drafted and are not supportive of relaxing the requirements.

One further comment we should wish to make concerns the specification of the size criteria in Schedule 3. We note that Schedule 3 has copied the size criteria currently set out in the SME FRF of \$50m annual revenue, \$50m assets and 50 employees. We consider that it would be consistent with the objective of modernising the Ordinance, for sufficient scope to be allowed in Schedule 3 for the two monetary criteria to be updated from time to time to reflect changing prices, without the process requiring specific amendment to Schedule 3. For example, this could be facilitated by Schedule 3 defining these criteria by explicit reference to the SME FRF as issued by the HKICPA, instead of setting out the absolute amounts. This would give scope for the HKICPA, as the body granted standard-setting authority under the Professional Accountants' Ordinance, to set higher thresholds for the revenue and asset tests in response to changing prices or growth in asset values.

If you require any clarification of our comments or suggestions, please do not hesitate to contact us.

Yours faithfully

