立法會CB(1)1679/04-05(01)號文件
LC Paper No. CB(1)1679/04-05(01)

LS/B/1/04-05
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2877 5029

Secretary for Financial Services and the Treasury
Financial Services and the Treasury Bureau
(Attn: Mr Alan LO, PAS(FS)4)
18/F, Tower 1
Admiralty Centre
18 Harcourt Road
Hong Kong

By Fax (2865 6778) and By Post

30 May 2005

Dear Mr LO

Companies (Amendment) Bill 2004

I refer to the Administration's Paper on "Follow-up Actions Arising from the Discussion at the Meeting on 23 May 2005" in which you restricted the focus of the discussion concerning the Bill to be on IAS 27 and concluded in paragraph 14 that there is no comparable jurisdiction in the world maintaining separate regimes for the application of IAS 27 or the control/dominant influence test.

I would extend the discussion to the impact of the application of control test on the requirements of preparation of group accounts. Due to the time restraint, my observations can only be made on the following two countries, which, notwithstanding the application of control test, appear to maintain separate regimes for financial reporting requirements based on different criteria:

Australia

Under the Corporations Act 2001:

(I) The note to section 45A(2) states that a small proprietary company generally has reduced financial reporting requirements.

(II) Under section 292(2), a small proprietary company has to prepare the financial report and directors' report **only** if:

(a) it is directed to do so under section 293 or 294; or

(b) it was controlled by a foreign company for all or part of the year and it is not consolidated for that period in financial statements for that year lodged with ASIC by:

(i) a registered foreign company; or

(ii) a company, registered scheme or disclosing entity.

(III) Section 296(1) provides that the financial report for a financial year must comply with the accounting standards. However, a small proprietary company's report does **not have to comply with particular accounting standards** if:

(a) the report is prepared in response to shareholder direction under section 293; and

(b) the direction specifies that the report does not have comply with those accounting standards.

(IV) A proprietary company is defined under section 45A as a small proprietary company for a financial year if it satisfies at least 2 of the following paragraphs:

(a) the consolidated gross operating revenue for the financial year of the company and the entities it controls (if any) is less than $10 million;

(b) the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is less than $5 million; and

(c) the company and the entities it controls (if any) have fewer than 50 employees at the end of the financial year.

In these circumstances, it appears that while the control test may be relevant in determining whether a small proprietary company controls an entity, there is a separate regime for the financial reporting of or the application of IAS to a small proprietary company in Australia. A small proprietary company is either generally not required to prepare annual financial report and directors' report or, if required to do so, may only be required to comply with accounting standards under specified circumstances.

<u>United Kingdom</u>

(I) The control test stipulates under section 258 of the Companies Act, 1985 is relevant in determining the relationship of parent undertaking and subsidiary undertaking.

(II) Once the relationship is established, the preparation of group accounts will be governed by section 227 of the Companies Act 1985 (International Accounting Standards and the Accounting Amendments) Regulations 2004, which provides that:

(a) If at the end of a financial year a company is a parent company the directors, as well as preparing individual accounts for the year, shall prepare consolidated accounts for the group for the year.

Those accounts are referred to in this Part as the company's "group accounts".

(b) The group accounts of certain parent companies are required by Article 4 of the IAS Regulation to be prepared in accordance with international accounting standards ("IAS group accounts").

(c) The group accounts of other companies may be prepared -

(i) in accordance with section 227A ("Companies Act group accounts"), **or**

(ii) in accordance with international accounting standards ("IAS group accounts").

In these circumstances, it appears that a non-listed company has the option to prepare either a Companies Act group accounts, in which the link presentation method is available, or an IAS group accounts.

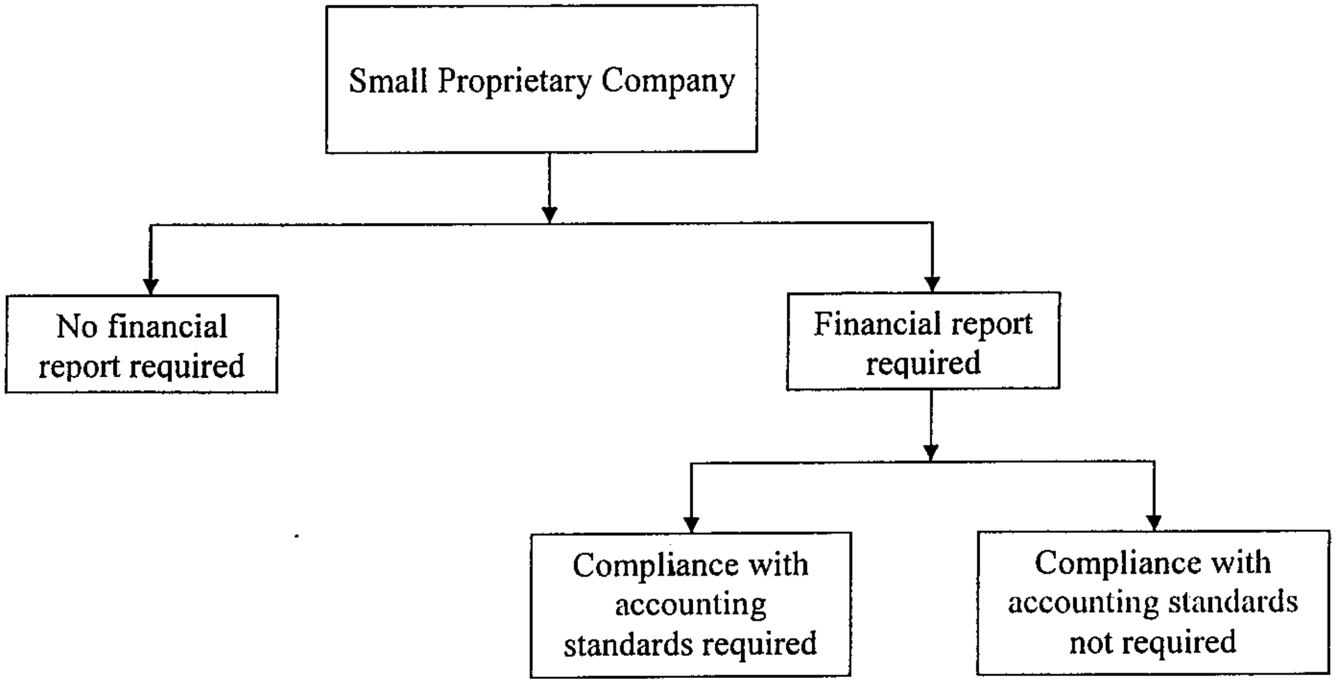
Please comment.

It is appreciated that your reply in both Chinese and English could reach us as soon as possible.

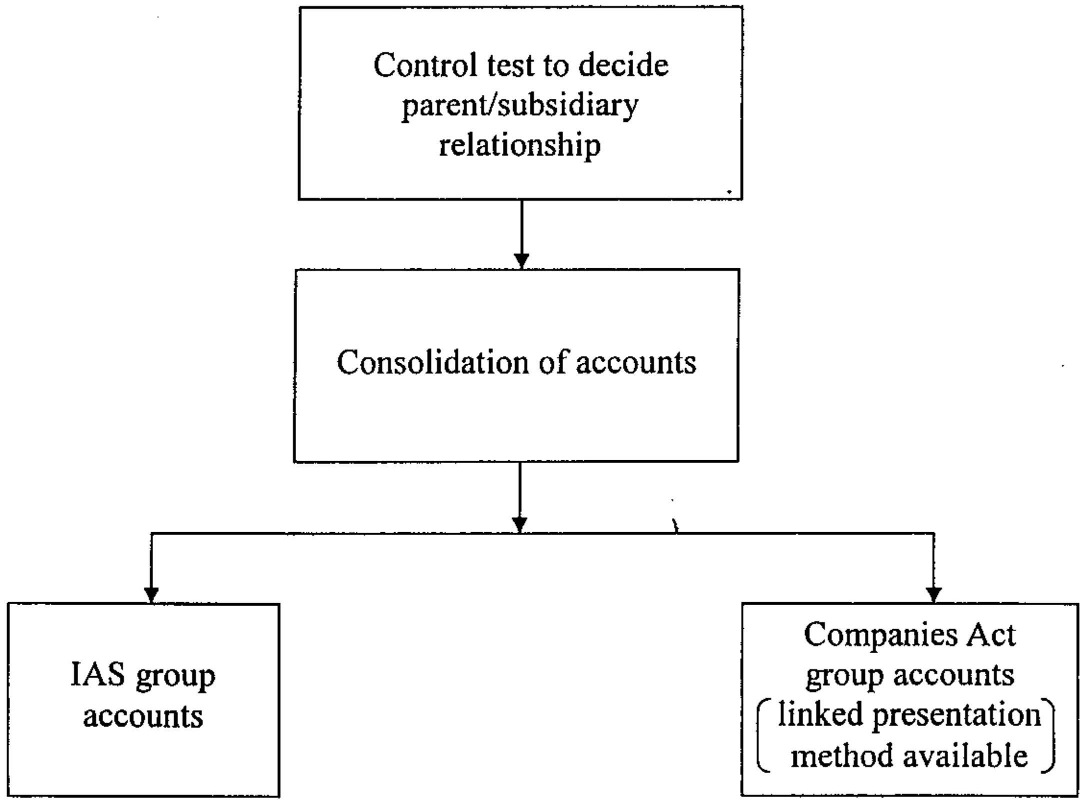
Yours sincerely

(Monna LAI)
Assistant Legal Adviser

For Small Proprietary Company in Australia



For non-Listed Company in UK



Non-Listed Company in Hong Kong

Control test to decide parent/subsidiary relationship

Consolidation of accounts

HKAS
No off - balance treatment
No link - presentation method