LegCo Panel on Financial Affairs
Follow-up to the Special Meeting on 16 October 2006

Progress of the Rewrite of the Companies Ordinance (Cap.32)

Purpose

This information note aims to provide Members with an update on the progress of the exercise to rewrite the Companies Ordinance ("CO") (Cap. 32), including the workplan and timeframe of the exercise, the financial resources allocated, expenditure incurred and the number and rank of posts created for the exercise.

Workplan and Progress of the Rewrite

2. Following the LegCo Finance Committee's approval given at its meeting on 13 January for additional resources to take forward the rewrite exercise, the Companies Bill Team ("CBT") headed by a Deputy Secretary for Financial Services and the Treasury (Financial Services) was established in mid-2006 to implement Phase I of the rewrite exercise. As foreshadowed in LC Paper No. EC(2005-06)9 dated 7 December 2005, a Consultant has been appointed to study and recommend proposals to reform some of the more complex areas, including share capital and debentures (Part II), distribution of profits and assets (Part IIA) and charges (Part III). The Consultant will commence the study in early November.

3. Besides the Standing Committee on Company Law Reform ("SCCLR") which is the principal body to advise the Administration on all major proposals arising from the rewrite, we have established four dedicated Advisory Groups[1] ("AGs") comprising mainly representatives from relevant professional bodies, major chambers of commerce and company law academics to advise on specific areas of the CO. Two of

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[1] The four AGs will cover the following areas: (i) share capital, distribution of profits and assets and charges provisions; (ii) company formation, registration, re-registration, and company meeting and administration provisions; (iii) directors and officers related provisions; and (iv) inspections, investigations and offences and punishment provisions.

the AGs have already started work in October. The two remaining AGs will commence operation in early 2007. We aim for the AGs' work to be substantially completed by end-2007.

4. Our plan is to publish a White Bill in mid-2009 to consult the public about the various proposals to reform the CO before introducing the Companies Bill into the LegCo by the third quarter of 2010. In the meantime, the CBT will roll out several topical public consultations to gauge views from the public on the reforms of certain complex areas of the CO. The first such consultation on accounting and auditing provisions will be launched in the first quarter of 2007. We are planning public consultations on reforms concerning share capital, debentures, distribution of profits and assets, and registration of charges by first quarter of 2008.

Financial Resources for and Expenses on the Rewrite

5. The LegCo Finance Committee approved at its meeting on 13 January 2006 a total cost of some HK$89 million to HK$91 million for the rewrite exercise, of which HK$69.406 million will be earmarked for creating new posts dedicated for the rewrite exercise in Financial Services Branch, Financial Services and the Treasury Bureau ("FSB"), the Companies Registry ("CR") and the Department of Justice ("DoJ"). The cost of the entire rewrite exercise will be funded by CR Trading Fund. Approximately HK$2.50 million, covering mainly salaries for the newly created posts, will have been incurred by the end of October 2006. As regards the consultancy fee, we expect it will be around HK$15 million.

Number and Rank of Posts Created for the Rewrite

6. The LegCo Finance Committee at its meeting on 13 January 2006 has approved a total of 13 posts[2] to be created in FSB, CR and DoJ for the rewrite exercise. All except 3 non-directorate posts to be created in DoJ have been filled as at end of October 2006.

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[2] These include three directorate and four non-directorate posts created in the Companies Bill Team.

Way Forward

7. We will report progress of the rewrite exercise to the LegCo Panel on Financial Affairs in due course.

Financial Services and the Treasury Bureau
October 2006