



創於1913年
Founded in 1913

香港華人會計師公會

The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)

(Incorporated in Hong Kong as a company limited by guarantee)

27 June 2012

Bills Committee on Companies Bill
Legislative Council
The Hong Kong Special Administrative Region of
The People's Republic of China

Re: Preparation of simplified financial and directors' reports

We refer to the Bills Committee's discussion on the qualifying criteria for private companies to prepare Simplified Financial and Directors' Reports, your consultation in December 2011 and the **Proposed Committee Stage amendments LC paper CB(1)2091/11-12(02)**.

The Society of Chinese Accountants and Auditors was formed in 1913 and incorporated in 1948. We have over 1,000 members representing hundreds of Certified Public Accountants ("CPA") firms in Hong Kong. The CPA firms of which our members are partners, directors or managers, audit a significant majority of the companies incorporated under the Hong Kong Companies Ordinance. Our members directly communicate with all of their clients, and also understand the needs of such clients.

We welcome the Government's initiative to update the Companies Ordinance with an aim to facilitating businesses in Hong Kong through, amongst others, **relaxation** of criteria for small companies to prepare simplified financial and directors' reports.

On 19 August 2011, we submitted our views, which were based on an open forum of our members, to your Committee regarding this topic and we write further to explain the views of our members.

Legislating for the future

We understand that whatever amendments made at the present may be in effect in the future 10-20 years. The Government commenced its comprehensive review of the Hong Kong Companies Ordinance and consultation on the Company Law Reform in 1997, i.e. over 15 years ago. It is important that any amounts, especially property values, that were taken into consideration now needs to be taken into context over a period of 10 to 20 years. Any change, though little may have long-lasting and pervasive effects on the business environment in Hong Kong.

Right to Choose Accounting Frameworks

It is often noted that the needs of banks, tax authorities or standard setting bodies have been taken into consideration; whereas the needs of the most basic group of stakeholders have been neglected.

Members of a company should have the right to choose an accounting framework that they understand.

Directors are shouldered with the responsibility of preparing financial statements that present a true and fair view but they were not allowed to choose a framework that they require or understand.



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We are talking about something that is more than just a disclosure requirement. With the present full HKFRS, directors and members are faced with a set of financial statements that have, for example, the following requirements:

- Annual fair valuation at year-end date of properties and investments that were not intended to be sold within a short period. Banks usually prepare their own valuation when renewing their bank loans. Tax authorities are mainly concerned with the value on the date of sale of the properties;
- Segregation of values for land and building when the flats in Hong Kong can never be sold without its land portion or building portion;
- Setting up of deferred tax which is not easily understandable to most businessmen as the amount may not be an amount of tax that they are required to pay to the Government;
- Recording as an asset when the company rented a property for 2 or more years as a tenant; and
- Changes to the standards almost annually.

Whereas the simplified accounting standard (SME-FRS) is a standard established by our local Hong Kong Institute of Certified Public Accountants in consultation from accountants from small and medium-sized firms. It caters specifically to the needs of the local investors and businessmen. It is recorded in historical cost in order to provide a clear accountability of every dollar spent by the company. It is not subject to different methods of valuation

Most of all, SME-FRS is understood by most if not all investors in Hong Kong.

Conclusion

1. We welcome the Committee's recommendation to increase the value of total assets and total revenue to HK\$100 million for a single company.
2. For Group of smaller private companies, we hope that the Committee would relax the threshold instead of HK\$200 million only.

We welcome the Committee's suggestion to take into account that for companies to be defined as a group, one would expect to have 2 or more companies. However the proposed threshold has not been raised or amended proportionately.

Many companies maintain a local base in Hong Kong while setting up factory in the Mainland. Hong Kong encourages more companies to maintain the holding company in Hong Kong to enhance other non-manufacturing activities, including banking, logistics, head office employments, etc. Most factories in the Mainland will employ more than 100 employees. Most if not all holding companies with factories in the Mainland will not qualify for this criteria.

One would therefore look at the other criteria. If the holding company holds a director or staff's quarters in Hong Kong, this group will not be able to adopt the Simplified Standards considering the increasing values of properties in Hong Kong now and in the future 10 to 20 years.



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We therefore strongly request the Committee to uplift the threshold but in any case, it should not be lower to any amount under HK\$200 million as proposed by the Committee.

We hope that our comments will be favourably considered and taken on board by the Committee as our members directly understand and reflect the needs of small and medium businesses.

Hong Kong is our home and we hope that Hong Kong businesses will continue to use Hong Kong companies to hold its investments instead of resorting to other offshore jurisdictions.

Should you require further explanation, please contact the undersigned or our Council Member, Elizabeth Law at 2869 6680.

Yours faithfully

Nelson Lam
President