



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)

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

18 August 2011

Re: Preparation of simplified financial and directors' reports

We thank you for your letter dated 28 July 2011 inviting us to give our views on Clauses 358 to 362 (under Part 9) and Schedule 3 of the Companies Bill ("the Bill").

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 have channels of direct communication with all of the clients that they audit, and also understand the needs of such clients.

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

On 17 August 2011, our society held a special forum for our members to discuss the Bill and consequentially we submit to your committee our understanding of the background and our comments and suggestions in respect of the matters set out below:

BACKGROUND

1. We understand that it is important that the provisions in the Companies Ordinance should strike a balance between protecting the stakeholders of a company incorporated in Hong Kong and catering to the needs and the rights of the stakeholders in the business environment of Hong Kong.



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2. Most private companies in Hong Kong are shareholder-managed and are small in sizes. They should not be burdened with onerous rules and regulations for presentations of financial statements that they do not understand.
3. It is important that one should have foresights in making amendments in the Companies Ordinance with a view to facilitating future business developments as such changes will have long-lasting effects on the business environment in Hong Kong.
4. Nowadays, a company is considered to be a small and medium enterprise if it employs less than 50 employees or, in the case of a manufacturing company, less than 100 employees.

COMMENTS AND SUGGESTIONS

Right to Choose Accounting Frameworks

1. Members of a company should have a right to choose its own applicable accounting frameworks

In Hong Kong there are currently three different accounting frameworks that can be applied for different private companies depending on the circumstances. Two of such accounting frameworks are based on fair values while the third framework is based on actual cost to the company. In the case of a private company, transfer of shares is not common, and each transfer of shares will require the approval of the directors of such company. Members who have no intention of transferring their shares in the near future may not necessarily need to know or otherwise ascertain the actual fair values of the assets of the company at each financial year-end date. It is our opinion that a special majority of not less than 75% of the Members should have the right to choose by way of special resolution passed at Members' meeting of a company the accounting framework that cater to the needs of such company or choose a standard that such



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Members can easy comprehend. The size test should not apply to private companies.

Presently, if all Members agree, a private company incorporated in Hong Kong can adopt the SME Financial Reporting Standard ("SME-FRS") regardless of the size, with the new proposal; companies that can previously take advantage of this exemption will be disqualified from adopting the simpler standard. This will defeat the original purpose of relaxing the criteria for small companies.

Small Private Companies

2. Increase the value of total assets to at least HK\$100 million

Many companies in Hong Kong own at least one or two properties. In fact, many small companies in Hong only invest in a single property and earn rental income as the only revenue. With the possible devaluation of the US Dollar to which the Hong Kong Dollar is likely to be pegged in the foreseeable future, the expected rise in value of the Renminbi, and the rise in property prices, the fair values of a property may easily rise to an amount that is well over HK\$50 million in a reasonable period of time. We propose that the threshold for the total asset value be increased from HK\$50 million to HK\$100 million.

3. Increase the threshold for the numbers of employees from 50 to 200

We are looking at the criteria for adopting a reasonable framework of financial statements and not looking at dispensing with audited financial statements.

A small manufacturing company with less than 100 employees will be considered as SME for other purposes but will not be able to adopt the simpler framework where assets of such company are disclosed at cost instead of fair values.

We propose to increase the threshold to 200 employees to encourage employment while maintaining flexibility for smaller businesses.



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Group of smaller private companies

4. Holding company does not need to be formed and registered under the Ordinance

One of the proposed criteria for the group of companies to qualify for the Simplified Standards is that the holding company must be formed under the Companies Ordinance of Hong Kong. This criterion will be in direct opposition to the Government's action to encourage more regional offices in Hong Kong and will deter foreigners to set up companies in Hong Kong. We propose that this condition be removed.

5. Threshold to be considered for each Hong Kong registered company only

According to Clause 2(5) of Schedule 3, each company in the group needs to be qualified as a small private company in the financial year.

- (i) There may be difficulty in obtaining the financial statements of all companies in the group to ascertain whether all companies in the group qualify as a small private company. This will impose undue hardship for member companies that may be located in other parts of the world. It would be rather burdensome for an auditor to ascertain whether each of the other companies in the group qualifies as small private company without performing an audit on all companies, including the ultimate holding company of the Hong Kong company.
- (ii) 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.
- (iii) Many companies maintain a local base in Hong Kong while setting up factory in the Mainland. Hong Kong encourages more companies to



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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 50 employees.

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 for aforesaid reasons.

It is important that the aim of the Companies Ordinance Rewrite be followed and that there should be business facilitation for Hong Kong companies when Members agree to the simpler accounting framework therefore reducing undue burden of cost and delay to companies incorporated in Hong Kong.

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

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

Yours faithfully

Simon Ng
President