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)
創於1913年
Founded in 1913

By email: bc_07_17@legco.gov.hk

8 June 2018

Clerk to Bills Committee on Companies (Amendment) Bill 2018
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Sir,

<u>Re: Companies (Amendment) Bill 2018</u>

The Society of Chinese Accountants and Auditors ("SCAA") is an incorporated body of professional accountants in Hong Kong established since 1913. The CPA firms of which our members are partners, directors or managers, service a significant majority of businesses in Hong Kong as well as companies investing into or through Hong Kong. Our members directly and regularly communicate with clients, their directors and employees and consequentially understand their needs and concerns.

A. <u>Reporting exemption – expanding the scope for simplified reporting for non-Hong Kong body corporate</u>

We welcome the Government's initiative to enhance the operations of businesses, in particular the smaller and medium sized businesses and to reduce onerous requirements by expanding the scope for simplified reporting due to the following reasons:

1. <u>Enhance understandability and reduce burdens by the shareholders</u>
   Hong Kong presently requires all companies to prepare financial statements on the basis of the Hong Kong Financial Reporting Standards which were only modified slightly from the International Financial Reporting Standards. However, the international reporting standards mainly cater to big companies that operate or have investments in more than one country/jurisdiction. These standards include, for example, requiring companies with tenancy agreements longer than one year to record the leased office space as assets of the companies; valuing companies' assets at Fair Market Values at year end dates when the values may be significantly different from the actual cost. These accounting treatments may not be useful to any users except for fulfillment of financial statements preparation purpose only.

   The Reporting Exemptions in the Companies Ordinance helps to alleviate these burdens and allow the companies' members and shareholders, i.e. the very important stakeholders and users of the financial statements of unlisted private companies, to better understand the financial position of the company and provide understandable accountability of the use of funds.

香港灣仔駱克道八十八號六樓 6/F., 88 Lockhart Road, Wanchai, H.K
Tel : (852) 2869 6680 Fax : (852) 2526 6434 E-mail : info@scaacpa.org.hk Web site : www.scaacpa.org.hk

2. Facilitate Hong Kong as the Investment Hub for Greater Bay Area and Belt and Road Countries
   Hong Kong has been used as a hub for investments into the Mainland and it is the intention that Hong Kong can continue to remain to be an important regional head offices or investment hub for Asian and Belt and Road countries. It is therefore important for shareholders/members to have a choice of accounting framework that is friendly and understandable to the users. Otherwise, Hong Kong will be forcing the investors to set up their companies outside of Hong Kong.

3. Returning the choice to the Shareholders
   Previously the directors can have a choice of not preparing Group financial statements when the expense and delay are out of proportion to the usefulness of the group financial statements. With the new Cap. 622 Companies Ordinance, this choice was eliminated. Although this condition was included in the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants, the directors would have committed a criminal offense if they do not prepare Group financial statements in accordance with the Companies Ordinance. Companies do not wish to break the law but the unnecessary costs and the extremely high penalty are unreasonable for shareholders/directors to bear. In addition, for companies which have chosen not to prepare the group financial statements (because of the costs and delay which is not in proportion to the usefulness) for decades, it is very difficult or sometimes impossible to obtain old information and documents which may have dated back some 30 years ago.

B. Reporting exemption – expanding the scope for simplified reporting to companies limited by guarantee and to mixed group of companies

We also support this new recommendation because of the following reasons:

1. Recognizing the diversity of operations of companies limited by guarantee
   Nowadays many Guarantee companies, especially charities, have expanded their roles in social responsibilities. Besides providing services or materials, they have also set up social enterprises so that the underprivileged groups can learn how to stand on their own and integrate into society to become useful citizens. Very often, they are set up as small companies limited by shares or by guarantee so that they will also take up the responsibilities of paying profits tax in Hong Kong. It is therefore even more important that they be relieved of the excessive compliance costs and be allowed to choose the SME-FRS accounting framework that is exclusively written for Hong Kong. To these companies which are set up to fulfill specific missions, accountability of each dollar spent is more important than recording unrealized gains by accounting for “Fair” Values of properties and unlisted investments, etc. (a requirement of the International Financial Reporting Standards) .

香港灣仔駱克道八十八號六樓 6/F., 88 Lockhart Road, Wanchai, H.K
Tel : (852) 2869 6680 Fax : (852) 2526 6434 E-mail : info@scaacpa.org.hk Web site : www.scaacpa.org.hk

2. Reducing Compliance Costs

Most small charities receive their funding through donations. Many of the smaller charities are not receiving subventions from Government departments. Extending the reporting exemption to Mixed Group with guarantee companies will help them to reduce unnecessary costs while enhancing accountability of every dollar received from the funding body/donor instead of recording assets at “fair” values. We are not asking to eliminate the audit process but to allow the guarantee companies to have a choice of different accounting framework and presentation of their financial operations. Allowing this expansion will greatly reduce their compliance costs. Although this may reduce the fees to be received by our members, the accountants, we wish to suggest the best solution for society.

C. Penalty Provisions relating to Financial Statements & Reports

The present penalty of Criminal Offense for delay in presentation of financial statements is excessive. One need to recognize the complexity of businesses today and that many operations are carried out outside of Hong Kong, in Mainland China or Belt and Road countries. Imposing Criminal Offense on directors for any minor offences beyond their ability are unreasonable and may unfairly penalize the innocents when there may be reasons or hardships obtaining the documents necessary for completion of the audit work in the time period specified in the Companies Ordinance.

We therefore hope that the Bills Committee would consider this when they align the penalty provisions relating to financial statements and reports.

D. To allow companies to display either the English name or Chinese name

With the ever-increasing costs, the offices and shops of many businesses are becoming smaller. As a result, the reception areas of businesses are reducing in sizes. In order to reduce costs, a company may prefer to display its company name in one language thereby allowing it to present bigger wordings of its company name. As either English or Chinese is an official language in Hong Kong, one would expect a company to be able to choose the language that will suit their business and operations. We therefore support the Government’s proposal to allow a company with both an English name and a Chinese name to display either its English name or its Chinese name.

香港灣仔駱克道八十八號六樓 6/F., 88 Lockhart Road, Wanchai, H.K
Tel : (852) 2869 6680 Fax : (852) 2526 6434 E-mail : info@scaacpa.org.hk Web site : www.scaacpa.org.hk

E. Size tests for small private company (or group)

The present amount for size test was proposed many years ago. Bearing in mind the actual economic environment, the surge in property prices and the present inflation rates in Hong Kong and the Mainland, the size tests in schedule 3 for small private company (or group of small private companies), Eligible private company (or group of eligible private companies) and small guarantee company (or group of small guarantee companies) should be increased to

Small private company in section 1(8) of Schedule 3 (not exceed any 2 of the following) :
Annual revenue of HK$150 million
Total assets of HK150 million at year end
100 employees

Eligible private company in section 1(11) of Schedule 3
(subject to Shareholders' approvals) (not exceed any 2 of the following):
Annual revenue of HK$250 million
Total assets of HK$250 million at year end
100 employees

Small guarantee company in section 1(13) of Schedule 3
Annual revenue not exceeding HK$50 million

Conclusion

Many companies will need to prepare their financial statements very soon and we sincerely hope that these measures can be passed so that they can alleviate the cumbersome burdens and compliance costs for the Smaller and Medium Enterprises as soon as possible.

We will be happy to answer any further questions that you may have. Should you require more information, please do not hesitate to contact the undersigned or Ms. Elizabeth Law, Council Member and Past President of our Society.

Yours faithfully,

Andrew Chen

Andrew Chen
President

香港灣仔駱克道八十八號六樓 6/F., 88 Lockhart Road, Wanchai, H.K
Tel : (852) 2869 6680 Fax : (852) 2526 6434 E-mail : info@scaacpa.org.hk Web site : www.scaacpa.org.hk