

Companies Bill Team,  
Financial Services Branch,  
Financial Services and the Treasury Bureau,  
15/F., Queensway Government Offices,  
66 Queensway,  
Hong Kong  
(Attn.: Mr. Nick Au Yeung)

4 January 2012

Dear Sir,

**Companies Bill – Consultation on the Qualifying Criteria for Private  
Companies to prepare Simplified Financial and Directors' Reports**

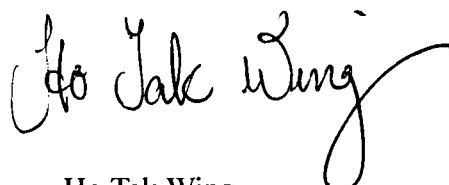
Thank you very much for your letter on the captioned subject under reference CBT/14/7/1 dated 6 December 2011.

With regard to the captioned issue, I have pleasure in offering my observations and comments in Appendix 1 for your perusal.

Kindly acknowledge receipt by return.

If you have any queries, please feel free to contact me at 2754-7233.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Ho Tak Wing', with a stylized flourish at the end.

Ho Tak Wing  
Certified Public Accountant

Encl.

**Companies Bill – Consultation on the Qualifying Criteria for Private Companies to prepare Simplified Financial and Directors' Report**

Option 1

Private companies/ the holding companies of groups meeting the size criteria can automatically qualify for simplified reporting. Large private companies/ groups cannot opt in.

The first part of the question was agreed whereas the second one was not.

(1) Private companies/ the holding companies of groups

Private companies/ the holding companies of groups having less than the following threshold scale can automatically qualify for simplified reporting:

<u>Item</u>	<u>Scale of Business</u>	<u>&lt; HK\$Million</u>
1.	Revenue	50.0
2.	Assets	50.0
	<u>Employees</u>	<u>Total number of Employees</u>
3.	Number of Employees (excluding past Employees)	50

Private companies/ groups which can (i) meet the above size test set out in section 141D of the existing Companies Ordinance; (ii) follow the SME-FRF & SME – FRS (Revised February 2011) effective for a qualifying entity's financial statements that cover the period beginning on or after 1 January 2005, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA); and (iii) be free from any public accountability, can automatically qualify for simplified reporting.

(2) Large private companies/ groups

Large private companies/ the holding companies of groups meeting the above same criteria and being free from any public accountability can also opt in.

Public Accountability

Concerning the element, “public accountability”, it can be defined as follows:

- (i) The entity is a public concern if it is a listed company in Hong Kong;
- (ii) The entity, by its nature of business, falls into one of the categories such as banking, deposit-taking, insurance stock-broking; and
- (iii) The entity is a subsidiary of the group, of which the holding company is a listed company. In these circumstances, the entity concerned is considered to bear the public accountability.

## Option 2

Private companies/ the holding companies of groups meeting the size criteria can automatically qualify for simplified reporting. Large private companies/ groups can opt in if members holding at least 75% of the voting rights so resolve and no other member objects.

### (1) Private companies/ the holding companies of groups

Agreed.

### (2) Large private companies/ groups

In principle, if large private companies/ the holding companies of groups reach the highest threshold of the following table, they can still qualify for simplified reporting.

<u>Item</u>	<u>Scale of Business</u>	<u>HK\$Million</u>
1.	Revenue	50.0
2.	Assets	50.0
	<u>Employees</u>	<u>Total number of Employees</u>
3.	Number of Employees (excluding past Employees)	50

### Simplified reporting

However, instead of following the aforesaid SME-FRF & SME – FRS (Revised February 2011), large private companies/ groups are strongly encouraged to comply with the Hong Kong Financial Reporting Standard for Private Entities.

### Hong Kong Financial Reporting Standard for Private Entities

Large private companies/ the holding companies of groups, due to complexity of their accounts, should comply with the Hong Kong Financial Reporting Standard for Private Entities, issued on 30 April 2010 by the Hong Kong Institute of Certified Public Accountants.

In the meantime, written consent and approval must be sought from members holding at least 75% of the voting rights with no objections from any other members.

### Option 3

Private companies/ the holding companies of groups meeting the size criteria can automatically qualify for simplified reporting. Large private companies/ groups can opt in if members holding at least 75% of the voting rights so resolve and no other member objects, subject to their size not exceeding a higher threshold.

#### (1) Private companies/ the holding companies of groups

Agreed

#### (2) Large private companies/ groups

To see whether large private companies/ groups can opt in, the following example can help to demonstrate its applicability.

#### Community Chest of Hong Kong

Community Chest of Hong Kong (hereinafter called “Community Chest”) is one of the best examples to demonstrate whether large private companies/ groups can opt in for simplified reporting.

#### Background

Community Chest is a corporation established in Hong Kong on 8 November 1968 by the Laws of Hong Kong Chapter 1122 Community Chest of Hong Kong Ordinance to raise funds through community-wide appeals and to distribute them to member agencies from time to time.

Based on the recent published financial statements of the Community Chest of Hong Kong for 2010/2011, its total Income and Assets amounted to HK\$410M (2009/2010 – HK\$409M) and HK\$1,238.2M (2009/2010 – HK\$1,047.2M) respectively (Please see Annex 1 and 2).

The Community Chest is one of the Non Government Organizations (NGO) as well as a Non-profit Making Entity. However, its Assets amounts as at 31 March 2011 do exceed the size criteria even the proposed one indicated in Note 1 below:

<u>Item</u>	<u>Scale of Business</u>	<u>HK\$Million</u>	
		<u>Current</u>	to be revised <u>(Note 1)</u>
1.	Revenue	50.0	100.0
2.	Assets	50.0	100.0
<u>Total number of Employees</u>			
3.	Number of Employees (excluding past Employees)	50	100

#### Note 1

As indicated in paragraph 18 of the Companies Bill Consultation Paper issued by Financial Services and the Treasury Bureau Companies registry dated 6 December 2011, the proposed highest threshold of both Revenue and Assets would be increased from HK\$50 Million and HK\$50 Million to HK\$500 Million and HK\$500 Million respectively.

Accordingly, notwithstanding that Community Chest is a large private Non-profit Making Entity, as it cannot satisfy the above items 2 and 3 criteria test above, due to the variety of stakeholders and complexity of its accounts, therefore Community Chest has to comply with the full Hong Kong Financial Reporting Standards (HKFRSs).

#### SUMMARY

All in all, the main objective of the above Financial Reporting Standard (under Options 1 to 3 above) is to ease the reporting burden of Private Entities by relieving the entities the requirement to apply full Hong Kong Financial Reporting Standards (HKFRSs).

COMMUNITY CHEST OF HONG KONGSTATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE FOR THE YEAR ENDED  
31 MARCH 2011 (Extracted)

	<u>2011/2012</u>	<u>2009/2010</u>
	HK\$M	HK\$M
<u>Income</u>		
Donation received	350.0	278.0
Net Investment Surplus	50.0	119.0
Income from Endowment Funds held by Trustees	0.6	0.2
Sponsorship received and Receivable for Campaign expenses	7.2	8.0
Hong Kong Jockey Club contribution to Administrative expenses	2.8	2.7
Management Fee for BOC Hong Kong “Caring Hong Kong – A Heart Warming Campaign”	0.1	0.1
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TOTAL INCOME	410.0	409.0
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COMMUNITY CHEST OF HONG KONGSTATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011 (Extracted)

	<u>2011/2012</u>	<u>2009/2010</u>
	HK\$M	HK\$M
<u>NON-CURRENT ASSETS</u>		
Fixed Assets	0.1	0.1
Investments	794.9	743.1
Employee Retirement Benefits	2.9	2.1
	<hr/>	<hr/>
	797.9	745.3
	<hr/>	<hr/>
<u>CURRENT ASSETS</u>		
Accounts Receivables and Payments in Advance	2.4	1.4
Accrued Interest	1.8	1.6
Cash at Bank and in Hand	436.1	298.9
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Total Current Assets	440.3	301.9
	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	1,238.2	1,047.2
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