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The Bills Committee on Companies Bill  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

Your ref CBT/14/7/1

Our ref CSM/DPP/20

Contact Catherine Morley  
2826 7228 (direct line)

12 January 2012

**By fax and post**

Dear Sirs

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

KPMG appreciates the opportunity to confirm our views on the qualifying criteria for private companies to prepare simplified financial and directors' reports, as requested in your letter dated 6 December 2011 and the accompanying Consultation Paper.

In respect of the requirements related to simplified financial statements, we note that we commented to the Bills Team on the draft Companies Bill in our letter dated 18 August 2011.

In that letter, we noted that in the gazetted Companies Bill a decision was taken to remove entirely the possibility of a 75% shareholder vote allowing larger companies and groups to adopt the SME FRF and FRS. We expressed the view that this has the advantages of simplifying the provisions of the proposed Ordinance and maintaining a closer relationship between the accounting requirements of the proposed Ordinance and those issued by the HKICPA. It also is consistent with international practice of allowing simple "properly prepared" financial statements which follow basic book-keeping requirements only for the smallest of companies, whilst larger private companies and groups will follow either the HKFRS for Private Entities (adopted from the IFRS for SMEs issued by the International Accounting Standards Board (IASB) or full HKFRSs (adopted from full IFRSs issued by the IASB) and prepare financial statements which "give a true and fair view". We therefore welcomed the position taken by the Administration in the Companies Bill as currently drafted and were not supportive of relaxing the requirements.

We continue to hold these views and therefore support Option 1, as set out in the Consultation Paper dated 6 December 2011 and do not support Option 2. We would also note in respect of the rationale in the Consultation Paper in support of Option 2 as set out in paragraph 15, that it would be a misapprehension to equate the current Section 141D regime with a proposal to allow any private company or group to adopt the HKICPA simplified reporting regime, on the basis that the section 141D regime can be adopted by any private entity "irrespective of size" (setting aside the industry exclusions, which are common to both sets of requirements). This is because



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section 141D is not available to those private companies which have any subsidiaries of their own and/or are themselves subsidiaries of any company formed or registered under the Companies Ordinance. This restriction, which is set out in section 141D(3)(a), explicitly prevents any private groups from applying section 141D and thereby has effectively acted in lieu of explicit size tests in many cases. Allowing private groups (or companies which are themselves subsidiaries of Hong Kong companies) of any size to follow the simplified reporting regime (as per Option 2) could therefore be reasonably expected to significantly expand the reach of the simplified reporting regime beyond the current status quo.

In respect of Option 3, we note from the Consultation paper that the revised size criteria proposed by the HKICPA would allow the substantial majority of private entities to be automatically qualified for the simplified reporting regime. We also note that by comparison with other reporting regimes, these revised limits would appear on the high side. We therefore no longer consider it necessary or appropriate to offer a further size band above the revised levels proposed by the HKICPA, based on a multiple of these criteria, to allow large private companies to adopt the simplified regime and would expect that in practice such an approach would be in effect a reversion to Option 2.

One further comment we made in our letter of 18 August 2011 concerned the specification of the size criteria in Schedule 3. We noted that Schedule 3 has copied the size criteria currently set out in the SME FRF of \$50m annual revenue, \$50m assets and 50 employees and we stated that we consider that it would be consistent with the objective of modernising the Ordinance, for sufficient scope to be allowed in Schedule 3 for the two monetary criteria to be updated from time to time to reflect changing prices, without the process requiring specific amendment to Schedule 3. For example, this could be facilitated by Schedule 3 defining these criteria by explicit reference to the SME FRF as issued by the HKICPA, instead of setting out the absolute amounts. This would give scope for the HKICPA, as the body granted standard-setting authority under the Professional Accountants' Ordinance, to set higher thresholds for the revenue and asset tests in response to changing prices or growth in asset values. We continue to consider that this would be a more appropriate approach in principle. However, if the revised levels as proposed by the HKICPA are reflected in the final Schedule 3, then, from a practical perspective, this lessens our concern at least for the medium term.

If you require any clarification of our comments or suggestions, please do not hesitate to contact us.

Yours faithfully

cc:  
Mr Chris Joy, Executive Director, HKICPA