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Tricolor Services Limited
卓佳專業商務有限公司

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Standard Registrars Limited
Strath Corporate Services Limited
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TECH news

Highlights of Principal Accounting Requirements for Corporate Entities under the Hong Kong Ordinances and Changes in Financial Reporting and Disclosure Requirements for Listed Companies

Maintaining proper books of account and reporting financial results are fundamental requirements for all persons carrying on business in Hong Kong. The Hong Kong ordinances establish a framework for record keeping and financial reporting, the principal objective of which is to protect investors and other interested parties.

This TechNews provides an overview of the principal accounting and reporting requirements for corporate entities under the Hong Kong Companies Ordinance and Inland Revenue Ordinance. It also highlights some major changes to the Main Board Listing Rules (the "Listing Rules") in respect of the financial reporting and disclosure requirements for Hong Kong Main Board listed issuers (the "Listed Issuers").

Accounting Requirements under the Hong Kong Companies Ordinance

The directors of every Hong Kong company (except dormant companies) have a duty to prepare statutory accounts for each accounting period. Such accounts must comprise the following:

- Balance sheet as at the end of the accounting period;
- Profit and loss account (or in the case of a company not trading for profit, an income and expenditure account) for that period; &
- Such notes on the accounts containing the relevant statutory disclosures.

The accounts should be made out in every calendar year and are

required to comply with the requirements of the Companies Ordinance regarding their format and content. The accounts shall give a true and fair view of the company's financial position and are required to be independently audited.

HONG KONG COMPANIES

As required by section 121 of the Companies Ordinance, every company is required to keep proper books of account with respect to:

- All sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- All sales and purchases of goods by the company; &
- The assets and liabilities of the company.

A company shall keep its books of account for 7 years from the end of the financial year to which the last entry was made or matter recorded therein relates.

Except where the company is a private company, certified copies of the company's balance sheet, profit and loss account, group accounts (if any), directors' report and auditors' report shall be delivered to the Hong Kong Companies Registry (the "Companies Registry") annually.

DORMANT COMPANIES

A private company may apply to the Companies Registry for dormant status under section 344A of the Companies Ordinance. From the time the company is deemed to be dormant, it is exempt from the



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statutory requirement to prepare annual audited accounts.

To qualify as a dormant company under the Companies Ordinance, the company must not enter into a relevant accounting transaction, i.e. a transaction required by section 121 of the Companies Ordinance to be entered in the company's books of account, other than fees payable under any ordinance. As such, a non-operating company would not qualify as a dormant company if it enters into a transaction that gives rise to a profit or loss or changes to its balance sheet.

OVERSEA COMPANIES REGISTERED IN HONG KONG

A company incorporated outside Hong Kong, which establishes a place of business in Hong Kong shall, within 1 month of such establishment, register with the Companies Registry as an overseas company. Every overseas company shall deliver to the Companies Registry, at least once in each calendar year and at intervals of not more than 15 months, certified copies of the following documents in respect of its last financial year:

- Balance sheet
- Profit and loss account
- Group accounts (if any)
- Directors' report (if any)
- Auditors' report (if any)

These should be presented in such form and contain such particulars as the overseas company is required to prepare by law in the place of its incorporation.

If the Companies Registry is of the opinion that the above documents do not sufficiently disclose the company's financial position, it may require the company to deliver a balance sheet and profit and loss account and other such documents and particulars in such form as it requires.

Where an overseas company is not required by law in the place of its incorporation or origin to prepare a balance sheet and profit and loss account, the company shall prepare and deliver to the Companies Registry such documents within such period and in such form as the company would have been required to prepare if it were a company incorporated under the Companies Ordinance including auditors' report. However, an overseas company is exempt from these requirements if the company would be a private company had it been incorporated in Hong Kong, or in the opinion of the

Registrar the company has substantially the same general characteristics as a private company.

REPRESENTATIVE OFFICES

Overseas companies may establish local representative offices in Hong Kong. A representative office is not allowed to engage in any business and is confined mainly to liaison and promotional activities. The law is silent in respect of the accounting requirements of a representative office.

Accounting Requirements under the Hong Kong Inland Revenue Ordinance

RECORD KEEPING REQUIREMENTS

Under section 51C of the Inland Revenue Ordinance, a person (including a company) carrying on a trade, profession or business in Hong Kong shall keep sufficient records in the English or Chinese language of its income and expenditure to enable the assessable profits of such trade, profession or business to be readily ascertained. The records prescribed in this Ordinance include:

- Books of account recording receipts and payments, or income and expenditure;
- Vouchers, bank statements, invoices, receipts;
- Records of the assets and liabilities of the person in relation to that trade, profession or business;
- Records of all entries from day to day of all sums of money received and expended in relation to that trade, profession or business;
- Where that trade, profession or business involves dealing in goods:
 - * A record of all goods purchased, and all goods sold in the carrying on of that trade, profession or business showing the goods, and the sellers and buyers in sufficient detail to enable the Commissioner to readily verify the quantities and values of the goods and the identities of the sellers and buyers, and all invoices relating thereto;
 - * Statements of trading stock held by the person at the end of the accounting period and all records of stocktakings from which any such statement of trading stock has been prepared;



- Where that trade, profession or business involves the provision of services, records of the services provided in sufficient detail to enable the Commissioner to readily verify the entries.

The above records are required to be retained for a period of not less than 7 years after the transactions to which they relate.

ACCOUNTS REQUIRED FOR HONG KONG PROFITS TAX FILING PURPOSES

All Hong Kong incorporated companies other than dormant companies as described above are required to file audited accounts with the annual profits tax return (the "return") issued by the Hong Kong Inland Revenue Department (the "IRD"). Small companies, i.e. those with total gross income not exceeding HK\$500,000, are exempt from the requirement of filing audited accounts with the return. The audited accounts must however still be prepared before filing the return. The IRD might request submission of the same for examination at a later date.

The IRD may accept unaudited accounts of a Hong Kong company for submission with the return when the company is in liquidation.

For filing returns of a Hong Kong branch of an overseas company, the IRD generally accepts unaudited branch accounts. The accounts should consist of a balance sheet and income statement, which shall be certified by a director or company secretary.

The IRD may issue a return to a representative office from time to time in order to review its profits tax position. Since a representative office cannot conduct business in Hong Kong, the return will be filed on a nil basis. The IRD generally accepts a certified statement of expenses to be filed with the return.

If the accounts of a trade or business have not been kept in a satisfactory form, the assessor may assess the profits or income of such trade or business on the basis of the usual rate of net profit on its turnover. The IRD may prescribe the usual rates of profits in particular classes of trade or business.

Highlights of Amendments to the Listing Rules in respect of the Financial Reporting and Disclosure Requirements for Hong Kong Main Board Listed Issuers

On 30 January 2004, The Stock Exchange of Hong Kong Limited issued certain amendments to the Listing Rules in order to enhance the transparency of Listed Issuers and improve investor protection. The new rules became effective on 31 March 2004.

The recent amendments to the Listing Rules include some changes to the financial reporting and disclosure obligations of Listed Issuers under Appendix 16. The major changes are summarised as follows:

- Introduction of new disclosure requirements relating to compliance with the Model Code on dealings of securities of a Listed Issuer by its directors, the requirements in respect of independent non-executive directors and establishment of an audit committee for annual reports and interim reports to enhance transparency. Details of the new disclosure requirements can be found under paragraphs 34 and 44 of Appendix 16.
- Introduction of recommended disclosures on management discussion and analysis. Listed Issuers are encouraged to disclose such additional information in their annual and interim reports to enhance transparency. For details of the recommended disclosures, please refer to paragraph 52 of Appendix 16.
- A new Chapter 14A was created to deal with connected transactions. Listed Issuers need to disclose in the published annual report and accounts information regarding the transaction date, the parties to the transaction and a description of their connected relationship, a brief description of the transaction and its purpose, the total consideration and terms and the nature and extent of the connected person's interest in the transaction.

Also, a new section on disclosure of pro forma financial information has been included in Chapter 4 to explain when pro forma financial information must be prepared and the standards of preparation and assurance associated with any disclosure of pro forma financial information whether mandated or voluntary.

We recommend you to contact our executives if you have any doubt about the information outlined above.

Tricor, a member of Bank of East Asia Group, is a leading professional provider of integrated business, corporate and investor services in Hong Kong and Greater China. Our services include Accounting, Company Formation, Corporate Compliance & Company Secretarial, Executive Search & Selection, Initial Public Offerings & Share Registration, Payroll and Trust Administration. Our mission is to be The Business Enabler of choice.



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