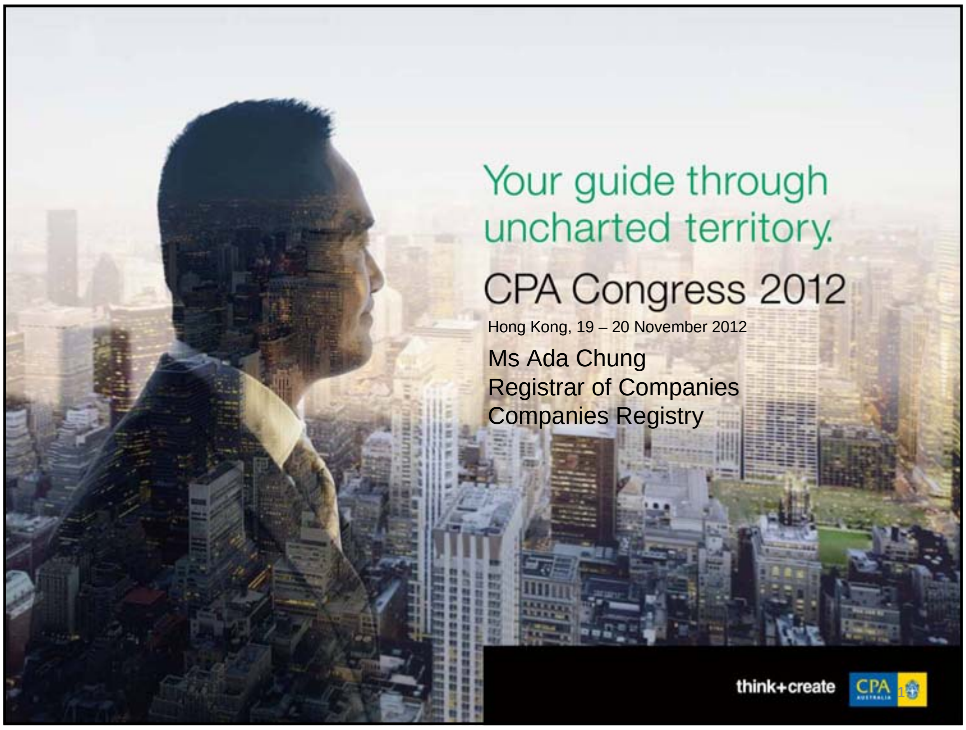

Your guide through uncharted territory.
CPA Congress 2012

Changing Landscape in Local Regulatory Environment

Ms Ada Chung
Registrar of Companies

CR 公司註冊處 COMPANIES REGISTRY

think+create CPA

The New Companies Ordinance

- Passed by the Legislative Council on 12 July 2012
- 21 Parts, comprising 921 sections and 11 schedules
- 13 pieces of subsidiary legislation – public consultation in progress
- Commencement expected in 2014 after enactment of subsidiary legislation

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FOUR Major Objectives of the New Companies Ordinance

- Enhancing Corporate Governance
- Ensuring Better Regulation
- Facilitating Business
- Modernising the Law

Highlights of Key Changes (1)

- Abolition of Memorandum of Association for **all** companies [section 67 and section 98]
- Abolition of Par Value of Shares for **all** companies [section 135]
- Requiring at least one natural person to be a director of a private company [section 457]
  (grace period of 6 months from commencement)

Highlights of Key Changes (2)

- Facilitating Simplified Reporting
  - Facilitating SMEs to prepare simplified financial and directors' reports:
    - a private company that qualifies as a "small private company" and the holding company of a group of companies that qualifies as a "group of small private companies" will qualify for simplified reporting [sections 359(1)(a) & 361; sections 359(2) & 364]
    - a private company that is not a member of a corporate group may adopt simplified reporting with the agreement of all the members [section 359(1)(b)]
  - Making the summary financial reporting provisions more user-friendly and extending their application to all companies

Highlights of Key Changes (3)

- Requiring directors' reports prepared by public companies and large private / guarantee companies to include an analytical and forward-looking **"business review"** [section 388 and Schedule 5]
  - provide useful information for shareholders
  - requirement to include information relating to environmental and employee matters with significant effect on the company
  - private companies may opt out by special resolution

Highlights of Key Changes (4)

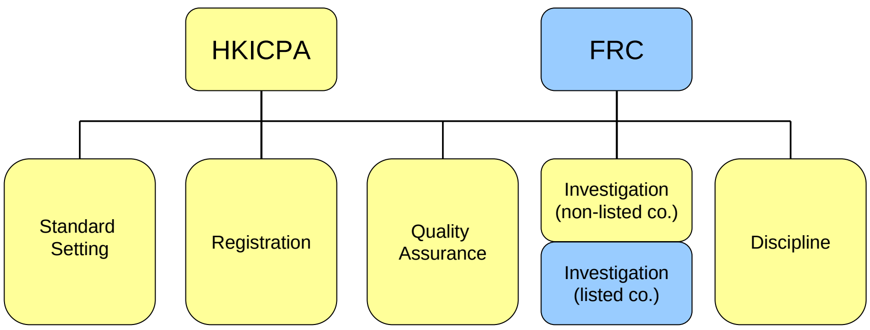
- New Offence relating to Inaccurate Auditor's Reports [section 408]
  - If the auditor is of the opinion that the financial statements of a company are not in agreement with its accounting records in any material respect or
  - the auditor has failed to obtain all the information or explanations that are necessary and material for the purpose of the audit

    → the auditor must state that opinion or fact in the auditor's report
  - The offence would be committed if the auditor in question knowingly or recklessly caused any of the two statements to be omitted from the auditor's report
  - The penalty for the offence is a fine not exceeding $150,000

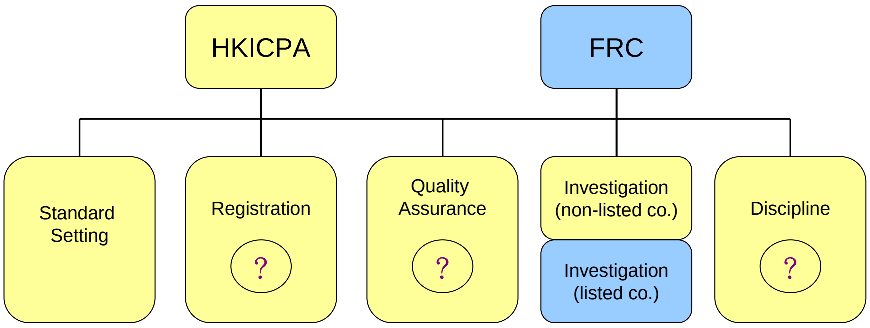
Looking Forward

- Companies Registry will conduct further seminars for stakeholders on the new Companies Ordinance
- Visit the CR's website at www.cr.gov.hk for updates

Hong Kong Regime – Current



Hong Kong Regime – Way Forward



FRC's Operations (as at 31 October 2012)

• **Complaints**	**Cases**
➢ Received since commencement	76 (42 completed)
➢ Formal investigations to date	22 (14 completed)
➢ Formal enquiries	10 (7 completed)

• **Review of modified auditors' report (since July 2008)**

➢ Screened	563 (completed)
➢ Reviewed	272 (271 completed)
➢ Resulting in formal enquiry / investigation	4

Common Auditing Irregularities

- Insufficient audit planning
- Failed to obtain sufficient audit evidence
- Did not exercise sufficient professional skepticism
- Insufficient documentation
- Did not identify a misstatement in the financial statement
- Failed to express a modified opinion

Common Non-compliances with Accounting Requirements

- Failure to restate Earnings Per Share (EPS) retrospectively when changes in the number of shares occurred after the reporting period but before the financial statements were authorized for issue
- Failure to measure identifiable assets acquired at their acquisition fair value
- Failure to recognize deferred tax on temporary differences in fair value adjustments arising from business combinations
- Failure to measure consideration shares at published price
- Failure to recognize and measure share-based payments in accordance with HKFRS 2 Share-based payment

Thank You