



14 February 2019

Dear members and member firms,

Amendments to Companies Ordinance Cap. 622 and consequential amendments to Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS)

Since the Companies Ordinance Cap. 622 (CO) has become effective in March 2014, the Institute has been working with the Companies Registry on improvements to the CO relating to financial reporting. We are pleased to see that our major recommendations were incorporated into the new provisions introduced in the Companies (Amendment) (No. 2) Ordinance 2018 (2018 Amendment Ordinance), which became effective on 1 February 2019.

Based on the 2018 Amendment Ordinance, the SME-FRF & SME-FRS (Revised) has been updated to reflect the following key amendments:

(i)	Mixed groups (i.e. groups comprising a mix of small private companies or eligible private companies and small guarantee companies) and groups that include non-Hong Kong body corporates are eligible for the reporting exemption provided under section 359 of CO, and hence eligible to use SME-FRF & SME-FRS (Revised) for financial reporting if they meet the qualifying criteria.
(ii)	For groups of eligible private companies, the adoption of reporting exemption provided under section 359 of CO and hence the use of SME-FRF & SME-FRS (Revised) will now require a resolution by members of the holding company only. It is no longer necessary for the holding company to also obtain approval from the shareholders of any of its subsidiaries.
(iii)	A partially owned subsidiary of an entity can now be exempted from preparing consolidated financial statements if all members agree in writing before the end of the financial year.

The amendments related to the reporting exemption criteria for mixed groups and groups with non-Hong Kong body corporates are applicable for financial years beginning on or after 1 February 2019. All other amendments to SME-FRF & SME-FRS (Revised) came into effect immediately on 1 February 2019. Earlier application is not permitted.

What to do next?

Members and member firms should carefully assess and advise your management or clients what they should do to qualify for the exemptions (e.g. obtain shareholder approval) by the applicable reporting year ends.

Illustrative examples of when the exemptions can first be applied:

		First set of financial statements eligible for key amendments:	
Key amendments		Example 1: Companies with March year-ends	Example 2: Companies with December year-ends
(i)	Reporting exemption for mixed groups and groups with non-Hong Kong body corporates	Financial year ending 31 March 2020	Financial year ending 31 December 2020
(ii)	Shareholder approval for reporting exemption for groups of eligible private companies	Financial year ending 31 March 2019	Financial year ending 31 December 2019

(iii)	Shareholder approval for consolidation exemption for partially owned subsidiaries	Financial year ending 31 March 2019	Financial year ending 31 December 2019
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Please refer to the [2018 Amendment Ordinance](#) and [SME-FRF & SME-FRS \(Revised February 2019\)](#) for the full requirements.

Best regards,

Hong Kong Institute of CPAs

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