Preparation of and Filing of Statutory Financial Statements

In general, limited companies incorporated in Hong Kong are required to prepare and audit financial statements annually and file these to the Inland Revenue Department (“IRD”). IRD normally issues Tax Return filing notifications to companies on the 1st of April every year. Companies must file their Tax Return within one month from the date of notification, though they can request for an extension with reference to different year end dates. There is no mandatory year-end date for Hong Kong companies, but 31 March and 31 December are the more common ones. For December year end cases, the filing deadline to IRD is August 15 whereas for March year end cases, the filing deadline is November 15.

For public listed companies, the reporting deadlines for the release of annual results announcements will be three months after the year end date of the financial year.

All limited companies are required to submit the audited financial statements to IRD. However, for certain small corporations with gross income for the basis period not exceeding HK$2,000,000, they may be exempted.

Groups of companies are required to prepare consolidated financial statements. HKFRS 10 permits a holding company not to prepare group accounts if it is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity at the end of its financial year. In addition, the ultimate or any intermediate parent of that entity produces consolidated financial statements available for public use, which comply with HKFRSs or IFRSs.

Financial Reporting Framework

Annual accounts of a listed company are required to conform with either HKFRS or IFRS or China Accounting Standards for Business Enterprises (CASBE) in the case of a PRC issuer. An overseas issuer, which has a secondary listing on the Exchange, may prepare annual accounts drawn up in conformity with Generally Accepted Accounting Principles in the United States of America (“US GAAP”) or other accounting standards acceptable to the Exchange.

Limited companies in Hong Kong are required to prepare their financial statements in accordance with HKFRS. Private companies in Hong Kong have an option to use either Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities) or Small and Medium-sized Entity Financial Reporting Framework (SME-FRF) as a financial reporting option if they satisfy the criteria set out in each reporting framework.

HKFRS for Private Entities uses the principles of HKFRS for measurement of the financial statement items but waived certain disclosure requirements as under full HKFRS.

Criteria to qualify for reporting under the SME-FRF and preparing financial statements in accordance with the SME-FRS in order for financial statements to give a true and correct view include:

**Hong Kong Companies**

- Companies applying section 141D of the Companies Ordinance (“CO”)
- Private company status;
- All shareholders agree to apply in writing;
- Do not have any subsidiary or is not a subsidiary of another company formed and registered under the CO; and
- Do not carry on certain specified business, e.g. banking, insurance, etc.
Overseas Companies

- No public accountability;
- Meet the size test, not exceeding any two of the following: (a) Total annual revenue of HK$50 million, (b) Total assets of HK$50 million as at balance sheet date and (c) 50 employees; and
- All shareholders agree to apply the SME-FRS.

Criteria to qualify for reporting under the Hong Kong Financial Reporting Standard for Private Entities include:

- Have no public accountability; and
- Publish general purpose financial statements for external users.

Audit Requirements for Corporations and LLPs Registered in Hong Kong

Statutory reports are required annually for limited companies incorporated in Hong Kong.

Audit Appointment, Rotation and Joint Audits

Auditors in HK normally hold office until the next annual general meeting of their client company. They may be appointed or removed at any time. HK does not currently have any rules relating to mandatory rotation of audit firms but there are guidelines within the ethical standards regarding partner rotation for the public interest entities. Whilst not prohibited, joint audits are quite rare but sometimes noted in pre-IPO cases as joint reporting accountants.

Auditing Standards

Crowe Horwath (HK) CPA Limited, the HK member firm of Crowe Horwath International is required to undertake their audit and express an opinion on the financial statements in accordance with applicable law and auditing standards. Those standards mainly refer to Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), They are based on the International Standards on Auditing of the International Auditing and Assurance Standards Board, published by the International Federation of Accountants.

Ethical Framework

Crowe Horwath (HK) CPA Limited is bound by the Code of Ethics for Professional Accountants of the HKICPA. The Institute has based and adopted the IESBA Code of Ethics for Professional Accountants (IESBA Code) as the ethical requirements for its members. Additional guidance has been incorporated to reflect local or legal requirements in Hong Kong.
Audit Regulation

Crowe Horwath (HK) CPA Limited is subject to the following external and internal monitoring processes with regard to their audit practice.

External Monitoring

The firm is subject to external review by the Practice Review Team of HKICPA for the entities audited by the firm. The Quality Assurance Department (“QAD”) of the HKICPA is responsible for ensuring practising members of the Institute observe, maintain and apply professional standards such that the quality of their professional work is maintained or enhanced. The results of the practice reviews carried out on practice units by the quality assurance department are reported to the practice review committee which is the committee responsible for exercising the powers given to the Institute by the Professional Accountants Ordinance. The published financial statements of listed companies audited by our firm are also subject to review by the Professional Monitoring Team of HKICPA for monitoring the compliance with professional standards of the firm with the objective to enhance the quality of financial reporting and the application of professional standards.

Internal Monitoring

The firm has designed and implemented a system of internal quality control, appropriate for the size and nature of the practice. An important element of the control system is to monitor the continued adequacy and operational effectiveness of the policies and procedures.

The firm appoints a monitor who will select completed engagement file from each engagement director and review the application of the quality control procedures. The scope of the file inspection is similar to that of a “general review” of working papers and should be driven by the complexity and risks associated with the engagement. The monitor conducts monitoring procedures as required under Hong Kong Standard on Quality Control 1 (HKQC1).