

The Hong Kong Companies Ordinance 2018

Keeping of Accounting Records

Under the New Companies Ordinance (CO), audit of financial statements is still required for all companies (except dormant companies)

Section 373 of the New CO requires a company to keep accounting records which are sufficiently to:

1. show and explain the company's transactions;
2. disclose with reasonable accuracy, at any time, the company's financial position and financial performance; and
3. enable the directors to ensure that the financial statements comply with the New CO.

In particular, the accounting records must contain daily entries including details of all sums of money received and expended by the company and a record of the company's assets and liabilities. If the above requirements to keep accounting records do not apply to a subsidiary undertaking of a company, the company must take all reasonable steps to secure that the subsidiary undertaking keeps accounting records that are sufficient to enable the company's directors to ensure the company's financial statements comply with the New CO. Section 374 of the New CO requires a company to keep its accounting records at its registered office or any other place that the directors think fit.

If the accounting records are kept at a place outside Hong Kong, the accounts and returns with respect to the business dealt with in those records must be sent to, and kept at, a place in Hong Kong.

Those accounts and returns must disclose with reasonable accuracy the financial position of the business in question at intervals of not more than 6 months and sufficient to enable the directors to ensure that the company's financial statements comply with the New CO. Section 377 of the New CO requires a company to preserve the records, or the accounts and returns, for 7 years after the end of the financial year to which the last entry made or matter recorded in the records, or the accounts and returns, relates.

Section 379 of the New CO requires preparation of financial statements for each financial year including the preparation of consolidated financial statements if the company is a holding company at the end of the financial year.

Preparation of consolidated financial statements is not required, if:

- a. the company is a wholly owned subsidiary of another body corporate in the financial year; or
- b. the company is a partially owned subsidiary of another body corporate in the financial year
 - (i) at least 6 months before the end of the financial year, the directors notify the members in writing of the directors' intention not to prepare consolidated financial statements for the financial year and the notification does not relate to any other financial year; and
 - (ii) as at a date falling 3 months before the end of the financial year, no member has responded by giving the directors a written request for the preparation of consolidated statements for the financial year.

Record Keeping

Section 51C of the Inland Revenue Ordinance: Every person carrying on a trade, profession or business in Hong Kong must keep sufficient business records, either in English or Chinese, for his income and expenditure so as to enable his assessable profits to be ascertained. He must keep such records for at least 7 years. Failure to do so may render him liable to a penalty of HK\$100,000.

In this respect, business record includes:

- 1) books recording receipts and payments, income and expenditure;
- 2) original documents such as vouchers, bank statements, invoices, bills, receipts ... etc;
- 3) books recording assets and liabilities;
- 4) books recording daily cash receipts and cash expenditures;
- 5) where the business involves dealing in goods -
 - a) a record of all goods purchase and all goods sold showing date of transactions, the goods concerned, the suppliers, the customers;
 - b) a record of trading stock at the opening and also at the end of the accounting period and details of the stocktaking for preparation of the stock record;
- 6) where the business involves the provision of services-
 - * records of all the services provided showing date of transactions, the services and the customers.