

Facts and tips for the preparation of a business review



In accordance with section 388 of the new Companies Ordinance, a Hong Kong incorporated company is required to include a business review that complies with Schedule 5 as part of its directors' report, unless:

- a. The company falls within the reporting exemption for the financial year; or
- b. The company is a wholly owned subsidiary of another body corporate in the financial year; or
- c. The company (that is a private company) does not meet the reporting exemption for the financial year, but passes a special resolution that exempts the directors of the company from preparing a business review for the financial year. This special resolution must be passed at least six months before the end

of the financial year to which the directors' report relates.

A business review should provide information to members of a company that helps them assess how the directors have performed their duties. The information should analyse the business through the eyes of the board of directors, consistent with the scope of the financial statements, both complementing and supplementing the financial statements and be forward-looking. It should be written in an understandable manner and be balanced and neutral, dealing even-handedly with both good and bad aspects.

To achieve these objectives a business review should comprise [paragraph 1 of Schedule 5]:

- i. A fair review of the company's business;
- ii. A description of the principal risks and uncertainties facing the company;
- iii. Particulars of important events affecting the company that have occurred since the end of the financial year; and
- iv. An indication of likely future development in the company's business.

To the extent necessary for the understanding of the development, performance or position of the company's business, a business review must include [paragraph 2 of Schedule 5]:

- i. An analysis using financial key performance indicators (that is, factors by reference to which the development, performance or position of the com-



Tips for preparing a business review

For a private company	For a listed company
<ol style="list-style-type: none"> 1. If a private company misses the deadline for passing a special resolution to exempt its directors from preparing a business review, the directors must prepare a business review unless the company qualifies for the reporting exemption [section 388(3)(a)] or is a wholly owned subsidiary [section 388(3)(b)]. 2. Companies that fail to meet the deadline in one financial year are not precluded from claiming exemption for the next financial year. 3. The special resolution can be worded such that it grants exemption for more than one financial year or until revoked. 	<ol style="list-style-type: none"> 1. While Schedule 5 of the new ordinance states that a directors' report for the year must contain a business review, a listed company may include a cross reference in its directors' report to where the business review is located outside of the financial report as long as it is located within the annual report. 2. For example, the business review may be cross-referenced to a company's Management Discussion and Analysis that is required by the Listing Rules provided that: <ol style="list-style-type: none"> a. The cross reference is clear and it is clearly stated that the cross referenced part of the annual report forms part of the directors' report; and b. The discussion and analysis found in that MD&A is sufficient to meet the minimum content requirements of Schedule 5. 3. An example of a cross reference from the directors' report to somewhere else in the annual report is provided on the Institute's <i>New Companies Ordinance Resource Centre</i>.

- pany's business can be measured effectively);
- ii. A discussion on:
 - The company's environmental policies and performance; and
 - The company's compliance with the relevant laws and regulations that have a significant impact on the company; and
- iii. An account of the company's key relationships with its employees, customers and suppliers and others that have a significant impact on the company and on which the company's success depends.

Schedule 5 of the new ordinance outlines the contents of a business review but does not require the disclosure of any information about impending developments or matters

in the course of negotiation if the disclosure would, in the directors' opinion, be seriously prejudicial to the company's interests [paragraph 3 of Schedule 5].

Where the directors of a company are required to prepare consolidated financial statements, the business review to be included in the directors' report should be a consolidated review covering the business of the whole group [paragraph 4 of Schedule 5].

The Institute's Accounting Bulletin 5 *Guidance for the Preparation and Presentation of a Business Review under the Hong Kong Companies Ordinance Cap. 622* provides illustrative examples of financial key performance indicators that might be disclosed in a business review if appropriate to the reporting entity's circumstances.

The implementation guidance that accompanies AB 5 includes additional examples of non-financial key performance indicators and other quantified data measures that directors may wish to include in the business review to supplement the company's performance information.

Members are recommended to refer to the Institute's AB 5 and questions and answers on the requirements for a business review and other aspects of the new ordinance.



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