

## **CHAPTER 5**

**THE GOVERNMENT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION**

**COMPANIES REGISTRY TRADING FUND**

**GOVERNMENT DEPARTMENT**

**Companies Registry**

**Services provided by the Companies Registry**

**Audit Commission  
Hong Kong  
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# **SERVICES PROVIDED BY THE COMPANIES REGISTRY**

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# SERVICES PROVIDED BY THE COMPANIES REGISTRY

## Summary and key findings

A. **Introduction.** The Companies Registry (CR) is mainly responsible for administering and enforcing the provisions of the Companies Ordinance (Cap. 32). The key services provided are the incorporation of companies, the registration of documents submitted by companies and the provision of company search facilities to the public. On 1 August 1993, the CR Trading Fund was established to manage the operations of the CR. The objective of establishing a trading fund is to improve the quality of service to customers. Audit has recently conducted a review of the services provided by the CR and found that there is room for improvement in a number of areas (paras. 1 to 6).

B. **Performance targets.** Since its establishment as a trading fund, the CR has made significant improvements in shortening the standard service delivery time for most of its services. However, Audit noted that, same as six years ago, it still required one day to conduct a company search at an ordinary service counter. Audit also noted that the standard service delivery time for the registration of general documents could be significantly reduced by replacing the microfilm system with a fully computerised system. In addition, Audit has reservations about the need to take twice as much time for changing the name of an existing company as for incorporating a new company (paras. 18 to 20).

C. **Electronic service delivery.** At present, a customer conducting a search must visit the CR's offices to obtain the required company information. As early as in 1993, the CR recognised the need to provide on-line search services (or electronic service delivery) to its customers. However, the progress of implementing on-line search services had been slow. The CR now expects that customers can have remote on-line access to its computerised database in early 2000. However, certain essential information required by customers is still not captured by the database. Audit has reservations as to whether the proposed on-line system can meet the needs of the customers. The CR is currently preparing a Strategic Change Plan with a view to implementing electronic filing, electronic processing and electronic searching by 2005. Audit notes that, compared with the Land Registry and the companies registries in certain overseas countries, the CR is lagging behind in implementing computerisation and on-line search services. Audit considers that the CR should take necessary action to make the best use of modern technologies to improve its services. As indicated by a consultancy study commissioned by the CR, by replacing the labour-intensive microfilm-based system with a fully computerised system and implementing on-line search services, the CR would also achieve substantial cost savings (paras. 47 to 51).

D. **Filing of annual returns by companies.** In 1998-99, 86,978 companies (22%) did not file annual returns within the time limit prescribed by the Companies Ordinance. Audit considers that this is unsatisfactory as members of the public were deprived of their statutory rights to obtain the latest information about these companies on a timely basis. With regard to overseas examples, the compliance rates of filing of annual returns in the United Kingdom and in Australia in 1997-98 were both 94%. Audit noted that in 1998-99, 36,646 companies (9%) did not file annual returns and did not pay annual registration fees. Audit estimated that the amount of annual registration fees uncollected by the CR for 1998-99 was about \$60 million (paras. 61 to 64).

E. **Checking of documents filed by companies.** Audit's examination of a sample of annual returns and accounts of listed companies revealed that only two of the eight listed companies had annexed to their annual returns particulars of their subsidiaries as required by section 128(5) of the Companies Ordinance. Although annual returns and accounts of listed companies were classified by the CR as documents requiring full checking, there was no documentary evidence to indicate that the CR had checked the compliance with section 128(5) or followed up the non-compliance cases (para. 73).

F. **Income sources.** In 1998-99, 14% of the annual returns filed with the CR was late. As a higher annual registration fee is payable for the late filing of an annual return, the fees from these late returns amounted to \$119 million (or 79% of the annual registration fees). If all the companies which filed late returns in 1998-99 had instead filed the returns on time, the CR's profit (before notional taxation) of \$84 million would have turned into a loss of \$30 million. Audit considers that there is a need for the CR to review its income sources and reduce its reliance on revenue from the late filing of annual returns (paras. 80 and 81).

G. **Audit recommendations.** Audit has recommended that the Registrar of Companies should:

- (a) continue to explore opportunities for setting more challenging targets and ways of meeting them (second inset of para. 21);
- (b) take full account of the needs and expectations of the customers in the implementation of computerisation projects and on-line search services (first inset of para. 52);
- (c) expedite the implementation of electronic filing, electronic processing and electronic searching of company data (second inset of para. 52);
- (d) review the effectiveness of the measures for enforcing the provisions of the Companies Ordinance in respect of the filing of annual returns (first inset of para. 65);
- (e) take further action (such as sending reminders to companies before due dates) to improve the compliance rate of filing of annual returns (second inset of para. 65);
- (f) review the effectiveness of the existing procedures and formulate internal guidelines for checking the compliance with the requirements of the Companies Ordinance (third inset of para. 75); and
- (g) place less reliance on fees for late filing as a steady source of income, particularly when preparing the CR's business plan and annual budget (second inset of para. 82).

H. **Response from the Administration.** The Administration agrees with most of the audit recommendations. The Registrar of Companies has said that the CR will take full account of the needs and expectations of its customers in the implementation of computerisation projects and on-line search services, and will make every effort to expedite electronic filing, electronic processing and electronic searching of company data (para. 53).

## INTRODUCTION

### The Companies Registry Trading Fund

1. On 1 May 1993, the Companies Registry (CR) became a government department to take over the functions of the Companies Division of the then Registrar General's Department. On 1 August 1993, the CR Trading Fund was established under the Trading Funds Ordinance (Cap. 430) to manage the operations of the CR.

2. A trading fund is a financial and accounting arrangement which enables a government department, or a part of it, to operate more like a business. **The objective is to improve the quality of service to customers.** A trading fund is allowed to retain the income generated from its services, instead of paying it into the General Revenue. Therefore, a trading fund can respond promptly to the changing needs of its fee-paying customers through improving service levels and introducing new services.

3. The Registrar of Companies is the General Manager of the CR. He manages and controls the CR in accordance with the Trading Funds Ordinance. He is accountable to the Secretary for Financial Services and ultimately to the Financial Secretary for the performance of the CR.

4. Under a Framework Agreement between the Secretary for Financial Services and the Registrar of Companies, the CR prepares annually a Corporate and Business Plan, setting goals for performance over the medium term of five years. Upon approval by the Secretary for the Treasury and the Secretary for Financial Services, the Corporate and Business Plan forms the basis for the evaluation of the CR's performance.

### Key services provided by the CR

5. The CR is mainly responsible for administering and enforcing the provisions of the Companies Ordinance (Cap. 32). The key services provided by the CR are:

- the incorporation of companies under the Companies Ordinance;
- the registration of documents submitted by companies under the Companies Ordinance; and
- the provision of public search facilities for the company information held by the CR.

As at 31 March 1999, the CR had an establishment of 462 officers, including 287 (62%) Clerical Officer or Clerical Assistant Grade officers. As at 31 March 1999, there were 474,761 companies on the register. In 1998-99, 1.5 million general documents were submitted to the CR for registration and 1.7 million searches were made by the public. In 1998-99, the average net fixed assets of the CR amounted to \$417 million, the total income was \$276 million and the profit (after notional taxation) was \$73 million.

## AUDIT REVIEW

6. Audit recently conducted a review of the services provided by the CR. The review focused on examining whether the CR, having been operating as a trading fund for six years, had made improvement in the quality of service to customers. The review also examined the effectiveness of the CR in ensuring compliance by companies and their officers with their obligations under the Companies Ordinance. The results indicate that there is room for improvement in a number of areas.

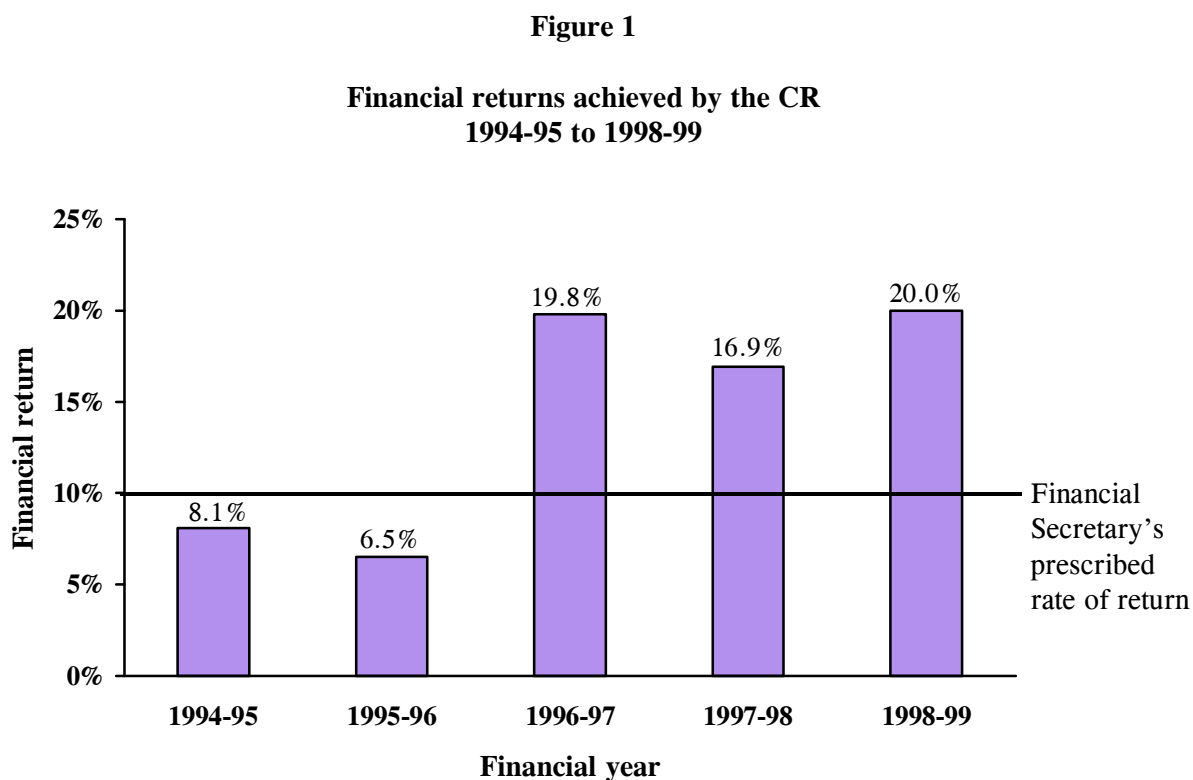
## PERFORMANCE TARGETS

7. The Registrar of Companies submits annually to the Secretary for Financial Services and the Secretary for the Treasury the CR's Corporate and Business Plan. It sets out the financial targets, productivity targets and service level targets to be achieved in the current financial year and the following financial year, and over the medium term of five years.

### Financial targets

8. The Trading Funds Ordinance requires a trading fund to fund itself from its service income and achieve a prescribed return on the average net fixed assets employed. For the CR, the prescribed rate of return, as determined by the Financial Secretary, is 10% a year.

9. The financial returns achieved by the CR since 1994-95 (the first full-year of operations as a trading fund) are shown in Figure 1 below.



Source: CR's records

Figure 1 above shows that since 1996-97 the CR has achieved a financial return higher than the prescribed rate of return of 10% a year.

## Productivity targets

10. Since the establishment as a trading fund in August 1993, the CR has aimed to achieve a productivity gain of 3% to 5% a year. The CR measures productivity by an index called weighted daily output per officer. The productivity figures for 1995-96 to 1998-99 are presented in Table 1 below (the figures for 1994-95 are not shown because some sections of the CR were reorganised).

**Table 1**

**Productivity of CR staff  
1995-96 to 1998-99**

Financial year	Weighted daily output per officer  (Note)	Productivity gain (loss) over the previous year	
		Weighted daily output per officer	Percentage
1995-96	127.8	Not applicable	Not applicable
1996-97	151.1	23.3	18.2%
1997-98	162.6	11.5	7.6%
1998-99	155.5	(7.1)	(4.4%)

*Source: CR's records*

*Note: For the purpose of measuring productivity, the CR assigns a weight to each activity (e.g. incorporation of a new company) to account for the staff time required to complete the activity. The productivity index (or weighted daily output per officer) is calculated by dividing the weighted total number of various activities completed by the total number of working days available from all officers.*

## Audit observations on productivity targets

11. Table 1 above shows that in 1996-97 and 1997-98, the CR achieved productivity gains which exceeded the target of 5% a year. However, the productivity in 1998-99, although higher than that in 1996-97, dropped by 4.4% as compared with 1997-98. The drop in productivity in 1998-99 was due to a decrease in the CR's workload. The workload statistics for 1997-98 and 1998-99 are shown in Table 2 below.



**Table 2**

**Workload statistics for 1997-98 and 1998-99**

<b>Activity</b>	<b>Number of cases</b>		<b>Percentage of decrease in workload</b>
	<b>1997-98</b>	<b>1998-99</b>	<b>(c) = <math>\frac{(b) - (a)}{(a)} \times 100\%</math></b>
	<b>(a)</b>	<b>(b)</b>	
New companies incorporated	39,016	30,705	(21.3%)
Overseas companies registered	711	586	(17.6%)
Change of name applications	9,650	8,480	(12.1%)
General documents registered	1,586,334	1,464,802	(7.7%)
Charges registered	41,911	19,464	(53.6%)
Searches made	1,950,171	1,743,030	(10.6%)

*Source: CR's records*

The decrease in workload was caused by a fall in business activities in Hong Kong as a result of the financial turmoil in Asia.

12. According to the CR, it needs to maintain a proper balance between reductions in manpower to meet a downturn in demand of its services, and maintenance of service delivery levels to meet its performance pledge targets. In this connection, Audit noted that the CR had taken the following measures to monitor its productivity:

- each section of the CR was required to report monthly its productivity to the Registrar of Companies; and
- sections with productivity lower than the target were required to give explanations and to propose remedial actions.

In response to the drop in productivity in 1998-99, various sections of the CR had taken remedial actions, including the deletion or freezing of vacant posts, and non-filling of temporary posts after termination of contracts.

## **Audit recommendations on productivity targets**

13. **Audit has recommended that the Registrar of Companies should:**
- **continue to closely monitor the actual achievement of productivity targets;**
  - **take necessary action (e.g. by redeploying surplus staff) to prevent further productivity loss; and**
  - **continue to implement measures such as computerisation to improve productivity in the longer term.**

## **Response from the Administration**

14. The **Registrar of Companies** has said that he will continue to closely monitor the actual achievement of productivity targets. In the longer term, the CR will continue to implement measures to improve productivity. He has also said that:

- as far as productivity targets are concerned, the CR's actual productivity in 1998-99 at 155.5 was 0.6% higher than the target of 154.5 for 1998-99 which was set at 5% over the average of the last three years. 1997-98 was an exceptional year in terms of economic performance while 1998-99 was very badly affected by the economic downturn. Any comparison between these two unusual financial years would not be indicative of the performance in a normal year;
- for the first four months in 1999-2000, improvements have been made in companies incorporation and charges registration activities which were the main problem areas in 1998-99; and
- the Strategic Change Plan Study Team (see paragraph 44 below) will conduct an overall review on re-engineering operational workflow and plan the introduction of new information technology applications to major operational processes in order to achieve major streamlining of procedures and improvements in productivity and services.

15. The **Secretary for Financial Services** has said that he takes note of Audit's recommendations to the Registrar of Companies. He will continue to work closely with the Registrar of Companies to make the best endeavours in enhancing the provision of services by the CR to the public in line with the commitment to maintain Hong Kong as an international financial and business centre.

16. The **Secretary for the Treasury** has said that she agrees with Audit's recommendations, some of which the Finance Bureau has been in discussion with the CR.

### **Service level targets**

17. Each year, the CR sets performance pledges on the standard service delivery time for the various types of service provided. A comparison of the service level targets and actual achievements in 1998-99 with the actual achievements in 1993-94 (the year in which the CR Trading Fund was established) is at the Appendix.

### **Audit observations on service level targets**

18. Audit noted that, until October 1997, there had been no service level targets expressed in terms of the percentage of cases meeting the standard service delivery time. In 1998-99, the standard service delivery time for all services was met in at least 94% of the cases. When compared with 1993-94, the CR has made significant improvements in shortening the standard service delivery time for all services, except the search service at an ordinary service counter. Audit noted that, same as six years ago, it still required one day to conduct a company search at an ordinary service counter. Audit also noted that the standard service delivery time for the registration of general documents (including eight days for microfilming) could be significantly reduced by replacing the microfilm system with a fully computerised system. **Audit considers that the slow progress in implementing computerisation and electronic service delivery has prevented the CR from further improving its services** (see paragraphs 25 to 51 below for details).

19. In 1998-99, the CR required six working days to incorporate a new company and 12 working days to change the name of an existing company. According to the CR, it took more time to change the name of an existing company because the procedures were more complicated. A comparison of the key procedures for incorporating a new company with those for changing the name of an existing company is shown in Table 3 below.

**Table 3**

**Comparison of the key procedures for incorporating a new company with those for changing the name of an existing company**

<b>Procedure</b>	<b>Incorporating a new company</b>	<b>Changing the name of an existing company</b>
I	Not applicable	Check whether the company incorporation number and the existing company name as stated in the special resolution of the company are correct
II	Check whether the intended company name is acceptable	Check whether the intended new company name is acceptable
III	Check the memorandum and articles of association of the company	Check the special resolution of the company
IV	Prepare and issue the certificate of incorporation	Prepare and issue the certificate of incorporation on the change of name

*Source: CR's records*

20. Table 3 above shows that the procedures for incorporating a new company and changing the name of an existing company are similar. However, the former procedures require six working days while the latter procedures require 12 working days. **Audit has reservations about the need to take twice as much time for changing the name of an existing company as for incorporating a new company.** Audit noted that in the United Kingdom, the time required for changing the name of an existing company with the Companies House (Note 1) was five working days, same as that for incorporating a new company. Audit also noted that in the annual customer surveys, in respect of customer satisfaction and among all the key services provided by the CR, changing the name of an existing company received the lowest score from the customers in 1996 to 1998 (Note 2).

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**Note 1:** *The Companies House in the United Kingdom has functions similar to those of the CR. In February 1999, representatives of the CR visited the Companies House to study its document processing operations.*

**Note 2:** *In 1998-99, the standard service delivery time for changing the name of an existing company was shortened from 13 working days in 1997-98 to 12 working days. In the 1999 Customer Survey, changing the name of an existing company received the third lowest score in respect of customer satisfaction.*

## **Audit recommendations on service level targets**

21. **Audit has recommended that the Registrar of Companies should:**

- **closely monitor the service level targets and take necessary action to ensure that the service level targets meet customers' expectations;**
- **continue to explore opportunities for setting more challenging targets and ways of meeting them; and**
- **review the procedures for processing the change of company name and the registration of general documents, and examine whether such procedures can be further streamlined, possibly by computerisation, to shorten the processing time.**

## **Response from the Administration**

22. The **Registrar of Companies** has said that he expects that the Strategic Change Plan Study Team will make suggestions for improvements which will provide further opportunities to improve the CR's targets. The target for a change of name has already been reduced further from 12 working days to ten working days since April 1999. Further streamlining is also planned. The Registrar of Companies has also said that:

- since the CR became a trading fund department in August 1993, a continuous programme of computerisation projects has been initiated to improve its services. For example, the document index for public search was fully computerised by October 1995. A CD-ROM service and an Internet service were introduced in February 1996 and July 1997 respectively to provide a more convenient mode of search on the CR's company name and document indices. Moreover, the CR's database was expanded by December 1998 to provide more data for public search when the on-line search system is implemented; and
- with the additional procedures such as verifying the existing company name (for printing on the new certificate also) and contacting applicants to amend errors and omissions on their special resolutions for change of name, the total processing time and lead time for change of name is longer than that for incorporation.

23. The **Secretary for Financial Services** has said that he takes note of Audit's recommendations to the Registrar of Companies (see also paragraph 15 above).

24. The **Secretary for the Treasury** has said that she agrees with Audit's recommendations (see also paragraph 16 above).

## **ELECTRONIC SERVICE DELIVERY**

### **Existing document processing and retrieval system**

25. The Companies Ordinance requires companies to submit various documents to the CR for filing. Some of these documents (e.g. annual returns) are required in a form specified by the CR. Although all the CR's specified forms are available in the diskette form, paper forms have to be printed from the diskettes for completion and submission to the CR. The Registration Division of the CR is responsible for processing the documents submitted by companies. During processing, certain information in the documents is input to a computer to update the CR's computerised database. All processed documents are microfilmed.

26. The following company information, captured in the CR's computerised database, is available for public search at the CR's Public Computer Terminal Room:

- company name index, which relates the name of a company to its incorporation number;
- document index, which keeps track of all the documents filed by a company;
- some basic data of each company (such as company status, date of incorporation and date of dissolution);
- particulars of directors of listed companies; and
- particulars of disqualification orders against directors or other office bearers.

27. To see a particular document filed by a particular company, a customer conducting a search needs to:

- purchase a search ticket. One search ticket is required for one year's documents of a company;
- fill in the company incorporation number of the company concerned by referring to the company name index; and
- fill in the year of filing of the document by referring to the document index.

28. The CR provides two types of counter for a customer to hand in his search ticket(s), as follows:

- ***Express service counter.*** There is only one express service counter. At this counter, a customer can search for documents of only one company at a time. According to the CR's performance pledge, a customer who hands in search ticket(s) at this counter can collect the required microfiche(s) in 20 minutes; and
- ***Ordinary service counter.*** A customer who hands in search ticket(s) at an ordinary service counter will be asked to collect the required microfiche(s) on the next working day.

The microfiches given to a customer are copies produced by a diazo copier from the original microfiches kept by the CR. A microfiche contains all the documents filed by a company in a particular year. A customer can use the microfiche reader in the CR's Microfiche Reading Room to read the documents in a microfiche. He can also request the CR to provide hard copies of any documents contained in a microfiche.

29. Since July 1997, the CR has been providing through its agent an on-line search service in respect of its company name and document indices. Registered fax-ordering users can send their requests for microfiches to the CR by fax after conducting searches on the company name and document indices via the Internet. The requested microfiches are available for collection from the CR's offices on the next working day.

### **Deficiencies of the existing microfilm system**

30. The CR introduced the microfilm system in April 1990. According to the CR, the main deficiencies of the microfilm system are as follows:

- ***Inefficiency in the document capturing process.*** Procedures such as document filming, film processing, quality checking and jacketing (Note 3) are labour-intensive. Savings in labour cost can be achieved if these procedures are substituted by an automated process; and
- ***Inefficiency in the document retrieval process.*** Document retrieval involves a manual procedure of extracting and copying the correct microfiche for a particular company for a particular year. If only a particular document is required, the current process is time consuming and involves a lot of wastage of material cost and search time. Microfiches do not allow multiple access and would not be available for copying if they are being used by other CR's staff.

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**Note 3:** *Jacketing is the process of cutting a roll of film into segments and putting the segments into the correct microjackets. One microjacket holds the microfilmed documents of one company for one year.*

## Customers' needs and expectations

31. From time to time, comments are expressed by the customers on the services provided by the CR. In October 1994, the Registrar of Companies received the following comments:

- the CR should already be implementing a programme of electronic document exchange and filing; and
- the company information held by the CR should be available directly through an on-line computerised database.

In response, the Registrar of Companies indicated that the CR was examining the implementation of on-line searches by customers. He also said that the question of document storage and retrieval was a very complex subject which would require very detailed and careful consideration as there were more than one options available.

32. Since 1996, the CR has appointed consultants to conduct annual customer surveys to identify areas that need improvement. The consultants interviewed customers at the service counters and sent questionnaires to the main user groups (mainly secretarial/corporate service companies, solicitors and notaries and accounting/audit firms). Some of the survey findings are summarised below:

- **General.** The customers recognised that there had been improvements to the services provided by the CR since its establishment as a trading fund in August 1993;
- **Information required by customers.** Particulars of directors and secretary, and particulars of shareholders and their shareholding were indicated by the main user groups as the most frequently required information in their searches. Other more frequently required information included share capital value, address of registered office, incorporation documents and charges documents;
- **On-line search services.** In 1998 and 1999, more than 90% of the main user groups indicated that they wished to have on-line access to the CR's database of key company information through the computers at their offices, instead of making searches at the CR;
- **Imaging of documents.** In 1998 and 1999, 95% of the main user groups indicated that they would prefer to obtain the documents by electronic transmission to their offices; and
- **Electronic filing of documents.** Since 1997, about 70% of the main user groups have indicated that they would prefer to be able to file documents electronically with the CR.



## Implementation of the Companies Registry On-line Public Search System

33. In its first Corporate and Business Plan of 1993, the CR indicated that investigations were underway to establish a long-term solution for storage and retrieval of data, possibly based on an electronic document management system rather than the then microfilm system. If it was found to be viable, implementation of an electronic document management system would commence in 1995-96 and would take at least three years to complete.

34. In January 1995, the CR engaged a consultant to study the available technology options for improving its services to the customers and achieving savings in labour cost. In May 1995, the consultant presented the following four options in his report:

- *Option 1.* This option was to maintain the status quo;
- *Option 2.* This option would involve upgrading the existing document processing and retrieval system with new microfilm and microfiche technology. It was estimated that this option would generate net savings of \$4 million over five years;
- *Option 3.* This option would use document imaging after the documents had been processed. Concurrently, key company information would be entered into a computerised database for on-line access by both internal and external users to reduce the number of document searches. It was estimated that this option would generate net savings of about \$32 million over five years; and
- *Option 4.* This option would use document imaging before the documents were processed and would involve a re-engineering of the workflow. As a result of improvements in the workflow, up to 90% increase in operating efficiency had been reported in some cases. It was estimated that the net savings from this option would be \$52 million over five years.

35. In July 1995, the consultant supplemented his previous report by presenting another option, Option 5. Option 5 involved, as a standalone solution and without using document imaging, the entry of key company information into a computerised database for on-line access by both internal and external users. **The consultant indicated that the information to be entered into the database should include directors, secretary, shareholders, share capital, address of registered office and charges information.** The consultant estimated that Option 5 would generate net savings of \$56 million over five years.

36. In July 1996, having considered the options presented by the consultant, the CR requested the Information Technology Services Department (ITSD) to conduct a feasibility study on the implementation of an on-line public search system called the Companies Registry On-line Public Search System (CROPS). The CR said that it had chosen a hybrid solution as its development path. The CR also indicated that its priorities were:

- first, to expand the CR’s computerised database;
- second, to implement CROPS to allow on-line access to the expanded database by both CR staff and the public; and
- third, to adopt document imaging technology for the benefit of the CR and its customers.

The CR indicated that it planned to make CROPS available for use by the public in late 1997 or early 1998.

37. The ITSD started the feasibility study of the CROPS project in February 1997 and completed it in October 1997. In the feasibility study report, the ITSD estimated that the CROPS project would need a non-recurrent cost of \$4.9 million and a recurrent cost of \$26.1 million over a five-year period through out-sourcing to a service-provider (Note 4). The CR agreed to proceed on this basis.

38. For the database expansion project, the data conversion exercise was completed in December 1998. The additional information captured in the expanded computerised database included particulars of directors, particulars of secretary, share capital structure, address of registered office, and a charges indicator showing whether or not a charge had been lodged in respect of a company. The total cost incurred was \$26.6 million.

39. For the CROPS project, as at 31 March 1999, the total cost incurred, including the cost of the feasibility study and tendering, was \$4.5 million. In May 1999, the CR completed the tender exercise and signed a two-year contract with a contractor for the implementation of CROPS at a total cost of \$6 million. The CR expects that the on-line search facility provided by CROPS would be available to the public in early 2000.

### **Strategic Change Plan**

40. At the CR’s Directorate Meeting of February 1997, the Registrar of Companies said that the CR should proceed with a feasibility study of a document imaging system immediately after the conclusion of the feasibility study of CROPS. **He indicated that if a document imaging system was not implemented soon, the CR’s storage and retrieval systems would lag further and further behind modern technology.** He also said that:

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**Note 4:** *In the feasibility study of the CROPS project, the ITSD did not estimate the net savings from the implementation of CROPS. Such estimation would require consideration of the cost of providing the expanded computerised database. However, this cost figure was not available as the expansion of the database was a separate project.*

- **except for the information in the computerised database which, in the future, could be accessed through CROPS, all other information held by the CR could be accessed only by searches at the CR’s premises.** This lack of flexibility and inconvenience was becoming increasingly untenable given the increasing globalisation of commercial information and Hong Kong’s position as a major international financial and business centre; and
- **once documents were received by the CR, they were processed manually in much the same way that they had been processed for years.** Consequently, even after the implementation of the expanded database and CROPS, the impact of computer technology on the CR’s operation would still be essentially at the fringes rather than at the centre.

41. In September 1997, the Registry Manager of the CR mentioned that the recently acquired microfilm duplicators were models manufactured three years ago and that the technology of microfilming would soon be completely outdated. In February 1998, the Business Manager of the CR considered that, instead of asking the ITSD to perform a feasibility study of a document imaging system, it was better to have a consultancy study to work out a total solution on the CR’s computerisation requirements.

42. In June 1998, at an in-house meeting, with a view to reducing costs of the CR and the customers and improving the quality of service to the customers, the Registrar of Companies agreed on the following three changes in the long-term computerisation strategy of the CR:

- ***Electronic filing.*** Companies should be able to use electronic means to file information with the CR;
- ***Electronic processing.*** The CR should use electronic means to process and register the information filed by companies, including information submitted in paper and electronic form; and
- ***Electronic searching.*** Customers conducting searches should be able to use electronic means to obtain on line the information registered with the CR in the form of either documents or specific data.

43. The Registrar of Companies also agreed that the vision of the CR should be as follows:

“To establish by 2005, a fully computerised system in the CR to file, process and register, and search information that will offer fast, inexpensive, user-friendly and high quality services to the CR’s customers throughout the world.”

**The Registrar of Companies said that a Strategic Change Plan should be developed to set out the operational vision and implementation plan to realise the departmental vision. He said that his target date of 2005 for the establishment of a fully computerised CR might be considered ambitious but he wished to create a sense of urgency and pressure to ensure that the completion and implementation of the Strategic Change Plan went ahead as quickly as possible.**

44. In September 1998, the CR formed a Study Team to develop the Strategic Change Plan. In particular, the Study Team would:

- define operations, procedures and workflow for electronic filing, electronic processing and electronic searching;
- identify the transitional arrangements and develop detailed action plans for moving from the existing paper-based system to a fully computerised system;
- estimate changes to requirements for space and location, assess the staffing and resource implications, and outline the training requirements; and
- identify any legislative implications and recommend the timing of procedures for introducing statutory measures.

The CR planned to complete the study and issue the Strategic Change Plan to the Secretary for Financial Services by 31 May 2000.

### **Audit observations**

45. In the 1997 Policy Address, the Chief Executive stated his vision of making Hong Kong a leader in the information world of tomorrow. In the 1998 Policy Address, the Chief Executive further pledged to use information technology to help retain Hong Kong's competitive edge and to drive the overall economic expansion.

46. **The objective of establishing the CR as a trading fund is to improve the quality of service to customers.** In the CR's Annual Reports for 1996-97 and 1997-98, it was stated that:

- the CR's vision was to achieve world-wide recognition as an excellent companies registry giving the community a quality service; and
- the CR had a mission to continuously review and improve its services and facilities, taking account of the needs and expectations of its customers and the best modern technology available.

47. From the annual customer surveys conducted by the CR's consultants, Audit noted that there were strong customer demands for on-line search services and strong customer preference for being able to file and obtain documents by electronic means. At present, same as six years ago, a customer conducting a search must visit the CR's offices to obtain the required information. An overseas customer, for example, would be unable to obtain the required information directly.

48. The CR recognised the need to provide on-line search services (or electronic service delivery) to its customers as early as in 1993 when it prepared its first Corporate and Business Plan. However, the progress of implementing on-line search services had been slow. Instead of the originally planned implementation date of early 1998, CROPS would only be available for public use in early 2000.

49. **Audit noted that CROPS would allow remote on-line access to the CR's expanded computerised database. However, certain essential information required by customers, such as particulars of shareholders and their shareholding, incorporation documents and charges documents, is not captured by the CR's expanded computerised database. Audit, therefore, has reservations as to whether CROPS can meet the needs of the customers. If a customer needs to visit the CR's offices to obtain the missing information, he may choose not to use CROPS to conduct a partial search. Audit considers that the needs and expectations of the customers should be fully taken into account in implementing on-line search services.**

50. The CR is currently preparing a Strategic Change Plan with a view to implementing electronic filing, electronic processing and electronic searching by 2005 (i.e. 12 years after the CR became a trading fund in 1993). **Audit notes that, compared with the Land Registry and the companies registries in certain overseas countries, the CR is lagging behind in implementing computerisation and on-line search services.** The audit findings are as follows:

- ***Land Registry.*** The Land Registry's operations are, in some respects, very similar to those of the CR. (The Land Registry also became a trading fund in August 1993.) However, the progress of computerisation has been much quicker. The Land Registry implemented a document imaging system in July 1996 and computerised all its land registers in April 1997. Since April 1997, the Land Registry's customers can have on-line access to the computerised land registers. They can place orders for copies of land registers and documents from computer terminals in their own offices, and collect the copies by mail or by fax;
- ***United Kingdom.*** The Companies House in the United Kingdom introduced document imaging in March 1995. Since May 1998, customers have been able to download images of company accounts. Since May 1999, other company documents have been obtainable via the Internet. In October 1998, the Companies House launched an electronic filing service to allow customers to file documents, including annual returns, by electronic mail;

- **Australia.** The Australian Securities and Investments Commission stores digitised copies of all documents filed since January 1991 by companies. Customers can request copies of any of these documents via the Internet with delivery sent by fax or electronic mail. In August 1992, the Commission identified through market research a need to implement an electronic filing system. Since September 1994, companies have been able to file their annual returns electronically. In October 1998, the Commission launched an electronic company registration service to allow customers to apply for incorporation of new companies and receive certificates of incorporation electronically; and
- **New Zealand.** The New Zealand Companies Office maintains a computerised database into which data from documents submitted by companies are entered. Since 1995, its computerised database has been available for search via the Internet. In August 1997, it introduced an on-line company name approval service. Since April 1999, incorporation of new companies can be done via the Internet.

51. **Audit considers that the CR should take necessary action to make the best use of modern technologies to improve its services.** By doing so, the CR will be able to achieve its vision of obtaining world-wide recognition as an excellent companies registry giving the community a quality service. **As indicated by the 1995 consultancy study, by replacing the labour-intensive microfilm-based system with a fully computerised system and implementing on-line search services, the CR would also achieve substantial cost savings.**

#### **Audit recommendations**

52. **Audit has recommended that the Registrar of Companies should:**

- **take full account of the needs and expectations of the customers in the implementation of computerisation projects and on-line search services; and**
- **expedite the implementation of electronic filing, electronic processing and electronic searching of company data.**

#### **Response from the Administration**

53. The **Registrar of Companies** has said that the CR will take full account of the needs and expectations of its customers in the implementation of computerisation projects and on-line search services, and make best endeavours to meet those needs and expectations as far as possible. The CR will make every effort to expedite electronic filing, electronic processing and electronic searching of company data. An information technology contractor will be employed in early 2000 to advise on the most appropriate information technology to be used regarding the implementation of the findings of the Strategic Change Plan Study. The Registrar of Companies has also said that:

### *Need for customers to visit the CR's offices*

- although customers still have to visit the CR's offices, with the completion of the computer system for document index search four years ago, a lot more number of computer terminals have been provided at the CR to assist customers. The CR will examine the possibility of making the company information accessible to interested parties via the Internet having regard to issues such as data security and personal data privacy;

### *Delay in the implementation of CROPS*

- the completion of the database expansion is a prerequisite for the development of CROPS. The plan in July 1996 to make CROPS available for use by early 1998 was drawn up before the result of the pilot scheme for the database expansion project was known. The pilot scheme showed that the time taken for data input for the database expansion actually doubled the original estimate. The database expansion exercise was completed by December 1998. In addition, the tender evaluation for CROPS encountered greater complications than anticipated;

### *Certain required information not captured by the database*

- the CR has to be selective about the data to be included in the expanded database in order to maintain a balance between costs and benefits. As a start, CROPS would cover key company data which are subject to the most frequent changes and would save customers' trouble of tracing through microfiches to obtain up-to-date information. Data which are more complicated or subject to less frequent changes would have to be excluded from the database, at least in the initial stages;

### *Customers' needs*

- based on past experience, the CR believes that CROPS will be able to meet the core needs of customers and enable them to enjoy other benefits of an on-line service. Further improvement in computerisation will be explored in the context of the Strategic Change Plan Study; and

### *Use of modern technologies*

- in the past, when it was part of the then Registrar General's Department, the CR experienced resource restraints and was not able to start earlier on computerisation projects. On the technical side, one of the unique problems faced by the CR is the need to cater for name/address data in Chinese (traditional or simplified) characters. Notwithstanding this, the CR always strives to improve its services and refers to other registries which use modern technologies to provide services.

54. The **Secretary for Financial Services** has said that he takes note of Audit's recommendations to the Registrar of Companies (see also paragraph 15 above).

55. The **Secretary for the Treasury** has said that she agrees with Audit's recommendations (see also paragraph 16 above).

## **FILING OF ANNUAL RETURNS BY COMPANIES**

### **Requirements for filing of annual returns**

56. A major function of the CR is to ensure compliance by companies and their officers with their obligations under the Companies Ordinance. In return for the privilege of limited liability, companies are required by various sections of the Ordinance to disclose certain information about themselves. In particular, section 107 of the Ordinance requires companies to file annual returns. Information in an annual return includes particulars of directors and secretary, particulars of shareholders and their shareholding, share capital structure, address of registered office and the total outstanding amount on all mortgages and charges. If no changes in information have taken place between the time when the last annual return was filed and the time when the current annual return is due, a company may file a certificate of no change to the information previously filed.

57. For a private company having a share capital, section 109(1A) of the Companies Ordinance requires the annual return to be filed with the CR within 42 days after the anniversary of the incorporation of the company. For other companies, section 109(1) of the Ordinance requires the annual return to be filed with the CR within 42 days after the date of the annual general meeting. If the annual return is not filed within the prescribed time limit, the company and its officers will be liable to prosecution and, if convicted, default fines. The fine is at level 5 (i.e. a maximum fine of \$50,000 –Note 5) for each breach together with a daily default fine of \$700.

58. An annual registration fee is payable by a company on filing its annual return with the CR. For the late filing of an annual return, a higher annual registration fee is payable, as shown in Table 4 below.

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**Note 5:** *The fine applicable to the offence for failing to comply with the requirements for filing annual returns is shown in Schedule 8 of the Criminal Procedure Ordinance (Cap. 221). However, this offence is not included in the list of recordable offences maintained by the Criminal Records Bureau of the Hong Kong Police Force.*



**Table 4**

**Annual registration fees payable by companies**

<b>Date of filing of annual return (Note)</b>	<b>Annual registration fee payable by a company having a share capital</b>	
	<b>Private companies</b>	<b>Other companies</b>
	<b>(\$)</b>	<b>(\$)</b>
Within 42 days	105	140
More than 42 days but within 3 months	870	1,200
More than 3 months but within 6 months	1,740	2,400
More than 6 months but within 9 months	2,610	3,600
More than 9 months	3,480	4,800

*Source: Companies Ordinance*

*Note: For a private company having a share capital, the date of filing of annual return is counted from the anniversary of the incorporation. For other companies, the date is counted from the date of the annual general meeting.*

**CR's enforcement measures**

59. In its 1997-98 Annual Report, the CR indicated that it was determined to maintain the integrity of the register of companies by ensuring that companies and their directors complied with their statutory duties of filing annual returns. In November 1997, the CR completed a major exercise to strike off companies that had failed to file annual returns for two consecutive years or more from the companies register. As a result, the records of about 432,000 companies were examined and about 77,000 companies were struck off the register. Many of these companies had been commercially inactive for a very long time.

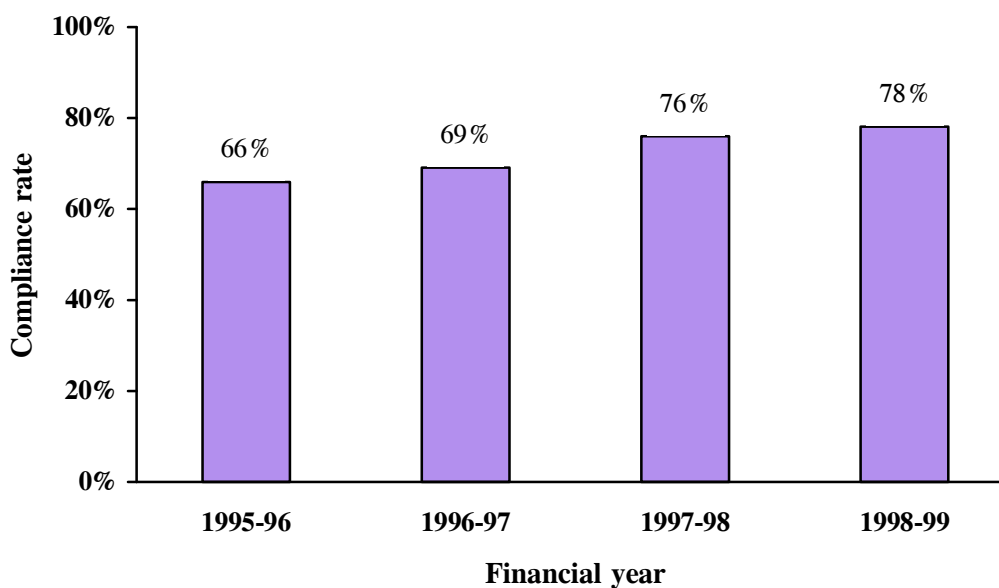
60. In December 1997, the CR announced that as from 1 April 1998 it intended to prosecute companies and their directors that failed to file annual returns. This new measure was announced through the CR's external circulars and home page on the Internet, newspaper advertisements, notices and flyers posted at the CR's offices and issued to customers, and articles published in various professional journals. In practice, for companies which fail to file annual returns within a predetermined period, the CR will issue reminder letters to the companies and each of their directors. For companies still in default after the issue of reminder letters, the CR will take prosecution action.

## Audit observations

61. The compliance rate of filing of annual returns represents the percentage of companies which have filed annual returns within the time limit prescribed by the Companies Ordinance. The compliance rates from 1995-96 to 1998-99 are shown in Figure 2 below.

**Figure 2**

### Compliance rates of filing of annual returns from 1995-96 to 1998-99



*Source: CR's records*

62. Table 5 below shows the compliance position of filing annual returns by companies in 1998-99.

**Table 5**

### Compliance position of filing annual returns by companies in 1998-99

	Number of companies	Percentage
Companies which filed annual returns within the prescribed time limit	315,065	(78%)
Companies which filed late annual returns	50,332	(13%)
Companies which did not file annual returns	<u>36,646</u>	<u>(9%)</u>
<b>Companies which were required to file annual returns in 1998-99</b>	<b><u>402,043</u></b>	<b><u>(100%)</u></b>

*Source: CR's records*

63. As shown in Figure 2 above, the compliance rate of filing of annual returns improved from 66% in 1995-96 to 78% in 1998-99. **However, Audit considers that a compliance rate of 78% is still unsatisfactory. As 86,978 companies (22%) did not file annual returns within the time limit prescribed by the Companies Ordinance, members of the public were deprived of their statutory rights to obtain the latest information about these companies on a timely basis.** Audit noted from Table 5 above that in 1998-99, 36,646 companies (9%) did not file annual returns and therefore did not pay annual registration fees to the CR. Similarly, in 1997-98 and before, those companies which did not file annual returns also did not pay annual registration fees to the CR. **For 1998-99, Audit estimated that the amount of annual registration fees uncollected by the CR was about \$60 million (Note 6).**

64. **Audit considers that the CR should take further action to enforce the provisions of the Companies Ordinance in respect of the filing of annual returns and improve the compliance rate.** Audit noted that, in 1997-98, the compliance rates of filing of annual returns in the United Kingdom and in Australia were both 94%. In the United Kingdom, for example, a fully automated system is used to issue reminders for the filing of annual returns before the due date. Persons who have, for the first time, been appointed as directors of companies are identified by the computer system and a brief note on the statutory duties of company director is sent to them for information. **In Audit's view, there is a need for the CR to study those enforcement measures which have proved to be effective in overseas countries with a view to implementing them in Hong Kong.**

#### **Audit recommendations**

65. **Audit has recommended that the Registrar of Companies should:**

- **review the effectiveness of the measures for enforcing the provisions of the Companies Ordinance in respect of the filing of annual returns; and**
- **take further action (such as sending reminders to companies before due dates) to improve the compliance rate of filing of annual returns.**

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**Note 6:** *For 1998-99, the estimated amount of annual registration fees uncollected by the CR was:*

<i>Amount of annual registration fee payable by each company</i>	<i>Number of companies which did not file annual returns</i>
= \$1,740 × 36,646	
= <u>\$63.8 million</u> (say \$60 million)	

*For the purpose of estimation, Audit assumed that if the CR had taken effective enforcement actions, all the companies which did not file annual returns in 1998-99 would have done so during the "more than 3 months but within 6 months" period (see Table 4 in paragraph 58 above). The estimated amount would be reduced if some of these companies subsequently file their returns.*

## Response from the Administration

66. The **Registrar of Companies** agrees that a compliance rate of 78% (excluding late filing) still leaves room for improvement. The CR will review from time to time the measures to improve the compliance rate of filing of annual returns and take any further action as deemed fit. He has also said that:

### *Compliance rate of filing of annual returns*

- there are at least two possible bases to look at the compliance rate, one excluding late filing and the other including late filing. Although about 87,000 (i.e. 22% of 402,043) companies did not file annual returns within the statutory time limit of 42 days, over 50,000 (i.e. 13% of 402,043) annual returns were still filed, albeit belatedly, making the overall compliance rate (including late filing) reaching 91%. Members of the public who need to refer to the outstanding annual returns urgently would normally make a complaint to the CR, which will take immediate action to pursue the filing of the relevant annual returns. Prosecution would be taken against the companies where appropriate. The complainants are usually satisfied with the CR's response;

### *Action taken to improve the compliance rate*

- the CR implemented the expanded prosecution policy with effect from 1 April 1998 for the purpose of improving the compliance rate of filing of annual returns. The increases in the compliance rate in 1998-99 and the current year clearly indicate that the policy has been effective. The CR will continue to move towards its objective of improving the compliance rate, excluding late filing, to beyond 90% eventually; and

### *Issues relating to further measures to improve the compliance rate*

- in deciding on any measures to be adopted, the following issues have to be borne in mind:
  - (i) the essence of the Companies Ordinance is that disclosure of statutory information is the responsibility of company directors;
  - (ii) a lot of non-compliance cases are discovered to be due to ignorance instead of forgetfulness. Past experience has indicated that a reminder is not likely to improve company directors' awareness of their duties, but a notice of prosecution has the effect of getting the message across quickly. However, and notwithstanding (i) above, having noticed the need to educate company directors, since August 1998, a pamphlet giving general information on filing requirements has been attached to each certificate of incorporation issued by the CR. Furthermore, starting from January 1999, an additional sticker stating the consequences of non-compliance in respect of the filing of annual returns has been fixed to the pamphlet for prior warning;

- (iii) the CR considers that, pursuant to the spirit of the Companies Ordinance, the pamphlet and the sticker are the only “reminders” that the CR should give to companies and their directors. Sending reminders may run the risk of making company directors dependent on the CR thereby ignoring their duties altogether; and
- (iv) sending reminders to all companies will involve additional financial implications for the CR.

67. The **Secretary for Financial Services** has said that he takes note of Audit’s recommendations to the Registrar of Companies (see also paragraph 15 above).

68. The **Secretary for the Treasury** has said that she agrees with Audit’s recommendations (see also paragraph 16 above).

## **CHECKING OF DOCUMENTS FILED BY COMPANIES**

### **Filing requirements of the Companies Ordinance**

69. The Companies Ordinance requires companies to file various documents with the CR. The most common documents to be filed by a company after incorporation include the annual return, notification of first secretary and directors, notification of changes of secretary and directors, consent to act as a director, notification of situation of registered office, notification of location of registers, return of allotment of shares and charges documents. For listed companies, their accounts have to be filed together with their annual returns. The Companies Ordinance states the punishments for not complying with these filing requirements by reference to a level of fine and an amount of daily default fine, if applicable. The amount of fine at a specific level is specified in the Criminal Procedure Ordinance (Cap. 221). There are six levels of fine as shown in Table 6 below.

**Table 6**

#### **Levels of fine for offences**

<b>Level</b>	<b>Amount of fine (\$)</b>
1	2,000
2	5,000
3	10,000
4	25,000
5	50,000
6	100,000

*Source: Schedule 8 of the Criminal Procedure Ordinance*

## CR's checking procedures

70. Documents filed by companies are processed by the Registration Division of the CR. For the purpose of determining the extent of checking, these documents are classified into two categories, as follows:

- **Documents requiring full checking.** These documents are subject to scrutiny both as to their contents and consistency with information previously filed with the CR. They include the following documents:
  - (i) annual returns and accounts submitted by listed companies;
  - (ii) statements in lieu of prospectuses;
  - (iii) all winding-up documents; and
  - (iv) amended documents and explanatory letters, if any, for amending incorrect documents; and
  
- **Other documents.** These documents are scrutinised only to ensure that:
  - (i) the company name and company incorporation number are stated on the documents;
  - (ii) the documents are signed manually or certified by director/secretary as appropriate;
  - (iii) the requisite fees have been paid;
  - (iv) the required documents (e.g. consents) have been submitted and filed with the relevant documents; and
  - (v) the prescribed form is used.

## Audit observations

71. To test check the effectiveness of the CR's procedures for checking the compliance with the requirements of the Companies Ordinance, Audit examined a small random sample of ten private companies and ten listed companies to determine if the relevant provisions of the Ordinance had been complied with in the filing of the following documents:

- returns of allotment of shares;
- charges documents;
- annual returns; and
- accounts (for listed companies only as private companies are not required to submit accounts).

The audit examination indicated that the CR had identified and followed up cases which failed to file annual returns within the prescribed time limit. However, the CR did not take appropriate action for cases which did not comply with the provisions of section 128 of the Ordinance.

72. The main provisions of section 128 of the Companies Ordinance are as follows:

- section 128(1) states that, where a listed company has subsidiaries, the company's accounts should state, for each subsidiary, the subsidiary's name, the place of incorporation of the subsidiary and particulars of the company's shareholding in the subsidiary;
- section 128(4) states that if, in the opinion of the directors of the company, the number of subsidiaries is such that compliance with section 128(1) would result in particulars of excessive length being given, compliance with section 128(1) shall not be requisite except in the case of the principal subsidiaries;
- section 128(5) states that, where advantage is taken of section 128(4):
  - (i) the company's accounts should state that only particulars of the principal subsidiaries are given; and
  - (ii) the particulars given in compliance with section 128(1), together with those which, but for the fact that advantage is so taken, would have to be so given, should be annexed to the annual return first made by the company after its accounts have been laid in general meeting; and
- section 128(6) states that if a company fails to comply with section 128(5) to annex particulars to the annual return, the company and every officer of the company who is in default shall be liable to a fine at level 6 (see Table 6 in paragraph 69 above) and, for continued default, to a daily default fine of \$300.

73. For eight of the ten listed companies in the audit sample, it was stated in the accounts that only particulars of the principal subsidiaries were given as advantage had been taken of section 128(4) of the Companies Ordinance. Audit examined the annual returns first filed by these eight companies after the laying of the accounts in their general meetings. Audit found that:

- only two of the eight listed companies had annexed to their annual returns particulars of the principal subsidiaries and all other subsidiaries, as required by section 128(5) of the Ordinance; and
- although annual returns and accounts of listed companies were classified as documents requiring full checking (see the first inset of paragraph 70 above), there was no documentary evidence to indicate that the CR had checked the compliance with section 128(5) or followed up the non-compliance cases.

74. **Audit considers that the six non-compliance cases should be followed up to ensure that the information required by section 128(5) of the Companies Ordinance is filed with the CR and open to search by the public. The annual returns and accounts of other listed companies should also be examined to determine if there are similar non-compliance cases. In addition, there is a need for reviewing the CR's procedures for checking the compliance with the requirements of the Ordinance and formulating guidelines to ensure that non-compliance cases would be detected for follow-up action.**

#### **Audit recommendations**

75. **Audit has recommended that the Registrar of Companies should:**

- **follow up the cases of non-compliance with section 128(5) of the Companies Ordinance as identified by Audit;**
- **take action to ascertain whether there are other similar non-compliance cases; and**
- **review the effectiveness of the existing procedures and formulate internal guidelines for checking the compliance with the requirements of the Companies Ordinance.**

#### **Response from the Administration**

76. The **Registrar of Companies** accepts Audit's recommendations and will follow up the non-compliance cases identified by Audit. Existing registration procedures are being revised to check for compliance when fresh annual returns are received. As annual returns are filed annually and will update the information contained in the previous annual returns, it is considered not cost-effective to retrieve the past records of all listed companies to identify whether or not there are non-compliance cases similar to the six cases identified.



77. The **Secretary for Financial Services** has said that he takes note of Audit's recommendations to the Registrar of Companies (see also paragraph 15 above).

78. The **Secretary for the Treasury** has said that she agrees with Audit's recommendations (see also paragraph 16 above).

## INCOME SOURCES

### Income categories

79. In accordance with the Trading Funds Ordinance, the CR is required to fund itself from the income generated from its services. Table 7 below shows the categories of income of the CR in 1997-98 and 1998-99.

**Table 7**

#### **The CR's income in 1997-98 and 1998-99**

Category	1997-98		1998-99	
	(\$ million)	Percentage	(\$ million)	Percentage
Annual registration fees	109	44%	150	54%
Incorporation fees	63	25%	53	19%
Searches and copying fees	47	19%	47	17%
Charges registration fees	14	6%	10	4%
Other income	15	6%	16	6%
<b>Total</b>	<b><u>248</u></b>	<b><u>100%</u></b>	<b><u>276</u></b>	<b><u>100%</u></b>

*Source: CR's records*

### Audit observations

80. Table 7 above shows that a major portion of the CR's income came from annual registration fees (54% or \$150 million in 1998-99). As indicated in Table 4 in paragraph 58 above, a higher annual registration fee is payable for the late filing of an annual return. In 1998-99, 14% of the annual returns filed with the CR was late. The fees from these late returns amounted to \$119 million (or 79% of the annual registration fees). The CR indicated that because of its vigorous enforcement actions, many directors submitted returns after receiving reminders in order to avoid prosecution. In the long term, the revenue from the late filing of returns may be reduced significantly if more companies comply with the Companies Ordinance and file returns on **1998-99 had instead filed the returns on time, the filing fees would have been reduced from**

**\$119 million to \$5 million (Note 7). The CR's profit (before notional taxation) of \$84 million in 1998-99 would have been correspondingly reduced by \$114 million. Instead of a profit, there would have been a loss (before notional taxation) of \$30 million.**

81. **Audit considers that there is a need for the CR to review its income sources and reduce its reliance on revenue from the late filing of annual returns. There is also a need for the CR to strive to reduce the cost of its operations. Where appropriate, the CR should explore new revenue sources by introducing value added products or services. In this connection, Audit noted that the CR introduced a new product in June 1998 to provide a chargeable screen print service in addition to the free company name and document indices search service at the CR's office. In Audit's view, there is scope for introducing new and better services to customers with a fully computerised system and on-line search services, as evidenced by the overseas examples mentioned in paragraph 50 above. There is also a need for the CR to draw on the experience of overseas countries in the development of new products.**

### **Audit recommendations**

82. **Audit has *recommended* that the Registrar of Companies should:**

- **assess the financial implications to the CR assuming that more companies will aim at filing their annual returns on time;**
- **place less reliance on fees for late filing as a steady source of income, particularly when preparing the CR's business plan and annual budget;**
- **regularly review the CR's product lines to ensure that they are in line with customers' expectations; and**
- **explore new revenue sources by introducing other value added products or services.**

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**Note 7:** *For 1998-99, the annual registration fees that would have been received from companies which filed late returns had they filed returns on time were:*

<i>Amount of annual registration fee payable by each company</i>	<i>Number of companies which filed late annual returns</i>
<i>= \$105 × 50,332</i>	
<i>= <u>\$5 million</u></i>	

## **Response from the Administration**

83. The **Registrar of Companies** has said that the financial impact of the expanded prosecution policy on the late filing revenue has been reflected in the CR's corporate and business plans starting from 1997-98 to 2001-2002, and will continue to be updated in the light of the actual situation. He expects that improvements to the compliance rate will be gradual rather than drastic. Once CROPS has been implemented, the introduction of new revenue sources or value added products or services will be explored. The Registrar of Companies has also said that:

- over the last few years, the CR has been concerned about the high proportion of its income dependent on late filing fees and well recognised the need to identify new services which are both revenue-generating and will provide better service to the public. One good example is the recent enactment of the legislation to permit the de-registration of solvent, defunct private companies which is targeted for implementation in November 1999. This new service is expected to generate an additional revenue of about \$10 million a year. Furthermore, since 1 September 1999, the CR has been issuing letters of confirmation of non-existence of certain records upon payment of a certification fee. New products which either have the potential of providing a sizeable revenue amount or will provide an efficient service to customers will continue to be explored; and
- the CR is always conscious of the need to reduce the cost of its operations and will continue to closely control costs.

84. The **Secretary for Financial Services** has said that he takes note of Audit's recommendations to the Registrar of Companies (see also paragraph 15 above).

85. The **Secretary for the Treasury** has said that she agrees with Audit's recommendations (see also paragraph 16 above).

**Appendix**  
(paragraph 17 refers)

**Service level targets and actual achievements of the CR**

Service	Service delivery time		Percentage meeting the	Improvement over 1993-94 (Note 1)
	1993-94 actual	1998-99 standard	1998-99 standard	
	(a)	(b)	(c)	(d) = $\frac{(a) - (b)}{(a)} \cdot 100\%$
	<b>(Number of working days unless otherwise specified)</b>			
Incorporation of a new company	7	6	99%	14%
Registration of an overseas company	38	30	95%	21%
Change of company name	13 (Note 2)	12	98%	8%
Registration of general documents				
—local company	33	15	96%	55%
—overseas company	47	18	94%	62%
Registration of charges	12	10.5	99%	13%
Searches				
—ordinary service counter	1	1	100%	Nil
—express service counter (Note 3)	22 minutes	20 minutes	100%	9%

*Source: CR's records*

*Note 1: The CR Trading Fund was established on 1 August 1993.*

*Note 2: As the CR had not recorded the processing time for change of company name until 1995-96, the processing time of 13 working days in 1995-96 is used for comparison.*

*Note 3: At the express service counter, applications for company search are restricted to only one company at a time.*