



MAZARS

9 January 2012

Companies Bill Team
Financial Services and the Treasury Bureau
15/F Queensway Government Offices
66 Queensway
Hong Kong

Dear Sir/Madam,

In response to your invitation for views on the options set out in the Companies Bill Consultation Paper on the Qualifying Criteria for Private Companies to Prepare Simplified Financial and Directors Report ("Consultation Paper"), we write to express our support for Option 1 which is not to permit large private companies/groups to opt for simplified reporting.

Currently, there are three financial reporting frameworks in Hong Kong, namely the Hong Kong Financial Reporting Standards ("HKFRS"), HKFRS for Private Entities ("HKFRS for PE") and the Small and Medium-sized Entity Financial Reporting Framework ("SME-FRS"). The first two would enable the financial statements of a private company to give a true and fair view but the last one would not. Companies qualified for simplified reporting under the Companies Ordinance would however seek to apply SME-FRS as it is the least stringent framework among the three in terms of measurement and disclosure.

SME-FRS is designed for SME within a certain size as defined therein. When a company goes beyond the certain size as defined, it is considered that the public interest elements would start to kick-in. Accordingly, allowing large private companies/groups to opt for simplified reporting and thereby allowing them to report under SME-FRS would, in effect, permit those public interests elements to be overlooked. Moreover, large private companies usually have more complex transactions, reporting under SME-FRS might not reflect those transactions with the degree of transparency that would be expected to understand their financial effect and consequence. To rectify this, SME-FRS would have to be amended in such a way to embrace large private companies/groups in its application. This would not be desirable as it would require tightening-up of some simplified reporting that is currently available to smaller companies.

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MAZARS CPA LIMITED

瑪澤會計師事務所有限公司

42ND FLOOR, CENTRAL PLAZA, 18 HARBOUR ROAD, WANCHAI, HONG KONG

香港灣仔港灣道18號中環廣場42樓

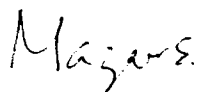
TEL : (852) 2909 5555 - FAX: (852) 2810 0032 - info@mazars.com.hk - www.mazars.com.hk

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For large private companies/groups, they are already able to take advantage of the reporting relief under the HKFRS for PE even if they do not meet the size criteria for reporting under SME-FRS. The three tier system (ie. HKFRS, HKFRS for PE and SME-FRS) that currently exists works well for listed entities, large private entities and SMEs. We do not therefore consider it right for the Companies Ordinance to be amended in such a way that would disturb significantly the three-tier system. Given that Option 2 and Option 3 would cloud the distinction between SME and large private companies for the purpose of reporting, they, if adopted, would have a greater effect on the three tier system and therefore are not preferred.

We hope you find the above useful in making your proposals to the LegCo Bills Committee for consideration.

Yours faithfully,



Mazars CPA Limited