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18 January 2012

Companies Bill Team  
Financial Services and the Treasury Bureau  
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66 Queensway  
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Your reference 貴行檔案編號  
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Our reference 本行檔案編號  
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Dear Sirs,

**Companies Bill – Consultation on the Qualifying Criteria for Private Companies to Prepare Simplified Financial and Directors' Reports (the "Consultation Paper")**

Thank you for your letter dated 6 December, 2011 inviting me to express my views on the qualifying criteria for private companies to prepare simplified financial and directors' reports, as set out in the Companies Bill and discussed in the Consultation Paper.

My observations are as follows:

1. Option 1

I agree in principle to extending the ability for private companies/groups to be allowed to prepare simplified accounts beyond what is contained in the Companies Ordinance. I believe that Option 1 contained in the Consultation Paper would already be sufficient for this purpose because:

- a. Relaxation of the qualifying thresholds: The thresholds for qualifying for exemption in the Companies Bill appear likely to be relaxed as a result of the proposed relaxation of the size criteria in the SME-Financial Reporting Standards, from HK\$50 million to up to HK\$100 million for the revenue and assets of the relevant company. This should address the concerns expressed by the Bills Committee that the revenue and asset criteria are too restrictive;
- b. I note the views expressed by the Hong Kong Institute of Certified Public Accountants and most major accounting firms, as stated in paragraph 11 of the Consultation Paper, that SME-FRS may not be able to reflect, with the degree of transparency that would be expected, the state of affairs of sizeable companies/groups with more complex accounts. This has implications not only for the shareholders of the company, but also for third parties (such as creditors, suppliers and business partners) dealing with such companies and/or their shareholders, as such parties may well have the need to consider the accounts of such companies as part of their due diligence. It would

probably not be practicable for the company concerned to be producing another set of accounts which are based on the full HKFRS for such purpose, such that third parties may have to accept the simplified accounts and bear the risks stated above.

- c. I also note that, as stated in paragraph 13, the regimes in comparable jurisdictions such as the UK and Singapore are similar to what is proposed in the Companies Bill and that there is no mechanism for large companies to opt for the financial reporting requirements applied to smaller companies. This gives comfort in that the approach to this in Option 1 has been well tested in other jurisdictions, and is in line with international standards.

I am therefore in favour of adopting Option 1.

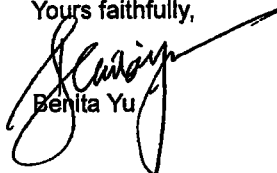
2. The reference to HK\$500 million minimum revenue for a company to be listed on the Main Board of the Hong Kong Stock Exchange:

As a reference point, paragraph 19 of the Consultation Paper refers to the annual revenue threshold of HK\$500 million applicable for a company to be listed on the Main Board of the Hong Kong Stock Exchange. However, the threshold is used in a very different context and may not be appropriate as a reference point for what is being considered for Option 3 contained in the Consultation Paper.

Under Rule 8.05 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited, a listing applicant must satisfy a profit track record involving certain minimum levels of profits made during the three years immediately preceding the listing. Where the applicant is not able to satisfy this requirement, there are two alternative tests for applicants with large market capitalisation of over HK\$2 billion and HK\$4 billion respectively to satisfy. Both alternative tests require the applicant having revenue of at least HK\$500 million for the most recent financial year.

It appears more common for listing applicants to rely on the profit test than the market capitalisation alternative tests to seek a listing, such that an applicant may not necessarily have revenue of at least HK\$500 million when it lists. Thus, to apply this threshold to the consideration of what is the threshold beyond which companies should not be allowed to produce simplified accounts does not seem to be appropriate and would in any event appear to be too high.

Yours faithfully,



Benita Yu