

12 January 2012

By Fax (2869 4195) and By Post

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Dear Mr. Au Yeung,

**Response to Draft Companies Bill – Consultation paper on the Qualifying
Criteria for Private Companies to Prepare Simplified Financial and Directors' Reports**

1. We refer to your letter of 6 December 2011 soliciting views on the Consultation Paper on the qualifying criteria for private companies to prepare simplified financial and directors' report issued by the Financial Services and the Treasury Bureau on 6 December 2011 ("Consultation Paper").
2. Among the three options proposed in the Consultation Paper, we prefer Option 2. Nonetheless, we thought it would be helpful if we also provide below our views on all the three options for your reference:

Option 1: Large private companies/groups should not be allowed to adopt simplified reporting (ie no change to the proposal in the Companies Bill (CB))

3. It is appreciated that stakeholders other than members of companies, such as lenders, creditors, suppliers and customers may have the need to make reference to the full financial statements of private companies in order to assess the credit worthiness and business continuity of such companies.

This Option 1 is, however, the least business-friendly and flexible among the three options under consideration.

Option 2: Allowing large private companies/groups with members' approval to adopt simplified reporting

4. We support Option 2, which allows large private companies/groups with members' approval to adopt simplified reporting for the reasons set out in paragraphs 14 and 15 of the Consultation Paper. This Option 2 gives more flexibility to large private companies/group to elect for simplified reporting should their members wish to release their companies from the reporting burden as imposed by the Companies Ordinance.

5. As far as users of the financial statements is concerned, unlike in the case of listed companies which will involve users like investors and analysts, the key users of private company financial statements are the Inland Revenue Department, lenders such as financial institutions and the members of the companies. It is generally recognised that lenders will rely on security rather than on historic financial statements to protect their credit position. In practice, lenders to such private companies will be able to request financial information as they require to support their credit decision, and companies can choose whether to provide or not.
6. With regard to the members' approval threshold, we suggest consideration be given to raising it from the proposed 75% to 100%. This is to avoid depriving the right of minority shareholders to demand and receive full financial reports. This is also in line with the members' approval requirement in cases of applications for deregistration and dormancy of companies under the Companies Ordinance.

Option 3: Allowing large private companies/groups with members' approval to adopt simplified reporting, subject to certain size criteria being met

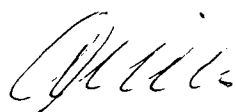
7. This Option 3 can be taken as a fallback approach. However, the threshold criteria, even if extended as suggested, still represent an arbitrary approach to the implementation of the policy objectives of this part of the CB.
8. In conclusion, we support Option 2 and suggest consideration be given to raising the members' approval threshold from 75% to 100%.

Other points for consideration

9. It would be helpful if the size criteria for private group of companies in paragraph 6 of the Consultation Paper can be clarified as to whether the aggregate total annual revenue, aggregate total assets and number of employees relate to consolidated figure or not.
10. In respect of the simplified reporting requirements for companies that fall within the reporting exemption as set out in the Appendix of the Consultation Paper, we do not think that the information relating to the resigning director's disagreement with the management of the company should be exempted from disclosure in a directors' report since this information is of material interest to the members of a company, whether large or small. Furthermore, such an exemption is inconsistent with Listing Rule 13.51.

We welcome the opportunity to comment on the Consultation Paper. If the Companies Bill Team requires further explanation on our comments, please do not hesitate to contact the undersigned on Tel: 2678 8510.

Yours faithfully,
For and on behalf of
CLP Holdings Limited



April Chan
Company Secretary