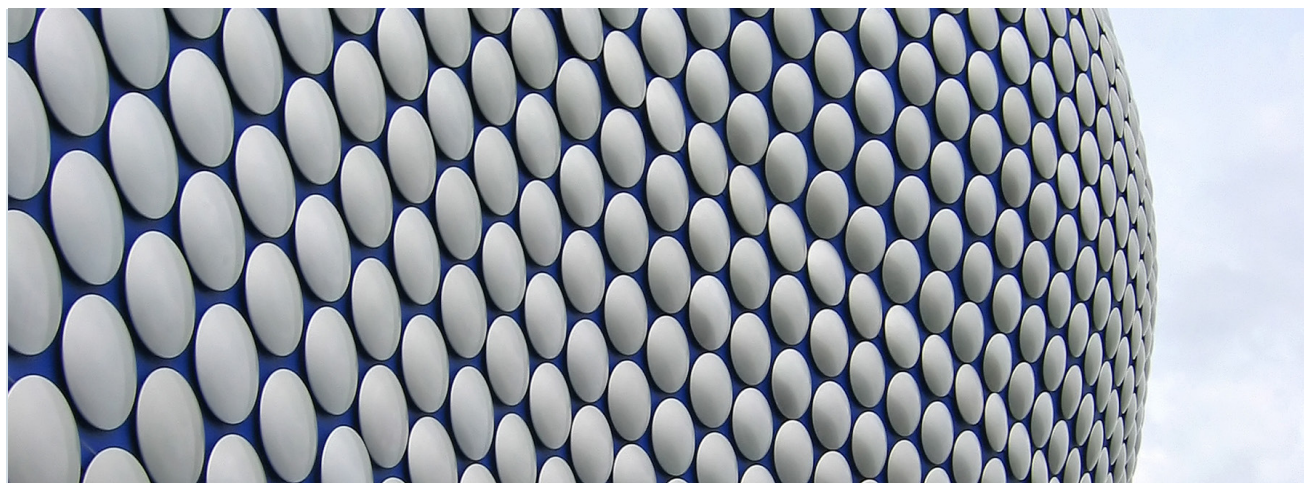


IRD COMMENTS ON 2012 FIELD AUDIT RESULTS

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ABOUT MAZARS

Mazars is an international, integrated and independent organisation, specialising in audit, accounting, tax and advisory services. We rely on the skills of more than 13,500 professionals in the 71 countries which make up our integrated partnership.

In China, Mazars has 600 highly-qualified professionals based in Beijing, Guangzhou, Hong Kong and Shanghai. They are fully committed to serving the growing and diversified needs of both Chinese companies and international firms.

BACKGROUND

The Hong Kong Institute of Certified Public Accountants has released the minutes of its annual meeting with the Inland Revenue Department (IRD) held early 2013.

The minutes can be found on HKICPA's website by [clicking here](#).

During the meeting, the IRD pointed out that out of the 337 corporation cases in which its Field Audit and Investigation Unit uncovered understatement of profits during 2012, 285 (i.e. 85%) carried clean auditors' report. Average understatement of profits and back tax assessed per clean report case were HK\$23.05 million and HK\$3.70 million respectively. Moreover, understatement uncovered from these clean report cases accounted for 87% of the total understatement detected in the whole year.

Corporations with clean auditors' reports are not exempted from being chosen by the IRD as targets of field audits. It is because auditors' reports are made for the purpose of expressing an opinion to shareholders whether the financial statements being audited give true and fair view of the states of affairs of the companies concerned.

These opinions are based on audits performed in accordance with auditing standards and not tax laws. Therefore, a clean auditors' report does not necessarily mean tax compliance. With a wider scope of review and full information obtained from third parties, the IRD is often able to identify discrepancies even when companies have clean auditors' reports.

It is a good practice for taxpayers to carry out regular tax health checks before they become the IRD's targets so that potential risk areas are identified and early actions could be taken. Advices from professional tax consultants should be sought if necessary.

MAZARS HONG KONG TAX AUDIT & INVESTIGATION SERVICES

Mazars has a team of professional tax consultants with IRD experience to assist clients in handling tax audits and investigations. We assist our clients throughout the whole course of the tax audit and investigation – from performing review of clients' tax position, accompanying clients to attend interviews with officers of the IRD, attending to enquiries from the IRD to formulating settlement proposals and negotiating with the IRD. In addition to helping clients to minimize the amount of back tax and penalties required to settle the tax audits and investigations, we aim at achieving prompt settlement of the cases so that our clients could focus back on their normal business as soon as possible.

For clients who would like to identify potential tax issues and take early actions before they become the IRD's targets of tax audits and investigations, we provide tax health check services at the end of which recommendations for minimizing potential tax exposure are made.

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