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From: Candy Lum

Sent: Sunday, June 13, 2004 8:41 PM

To: P.T. Comment Letter

Subject: Comments

Dear Mr Riley

I'm a member of the HKSA and have attended the technical update evening regarding the proposed implementation of a SME financial reporting standard. I write to express my humble opinion.

I do support the implementation of a separate accounting standard for SMEs. I think there is a need to simplify the financial reporting framework for those unlisted companies which have completely different users for their financial statements. Also, this is a way to go in line with the global trend.

I agree to the principles underlying the SME reporting, however, I have different opinion on the proposal for the qualifying entities. The criteria for the size of the company seems to become a restriction or barrier if that company's turnover / assets or number of employees exceeds the stated limits. As one of the reasons for the SME financial reporting framework is that the users of the financial statements are different from those of the listed companies and such SME has no public accountability, why don't we ignore the size of the company but just look at nature of the company? If the company is listed in the market, then the main GAAP is applied. If the company is not listed, then we use the small GAAP. This way, we don't have to bother anything whether the company may qualify in one particular year but not another, as we won't look at the size of the company. Having said that, I think the financial statements still need to give a true and fair view under the SME-FRF. Perhaps the size restriction could be used as a criteria on applying the section 141D.

What I am suggesting is that there are 3 types of financial reporting framework:-

- for listed company, main GAAP and a true and fair view
- for unlisted company, small GAAP and a true and fair view if not sec. 141D is not applied
- for unlisted company, small GAAP and a true and correct view, with application of sec. 141D

Lastly, I do agree to the disclosure of related party transaction under the SME-FRF. This is to be in consistent with my view point that the financial statements should give a true and fair view. Also this is to differentiate from those under sec. 141D.

Best regards

Candy Lum