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2 October, 2008

Dear Mr. Ong

Proposed Amendments to Small and Medium-sized Entity Financial Reporting Framework (SME-FRF) and Proposed Sections of Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) ("the Proposed Amendments")

We refer to the Institute's letter dated 30 May 2008 inviting comments on the Proposed Amendments. This invitation follows the Institute's invitation to comment on the Consultation Paper on Financial Reporting by Private Companies. Our comments on the Proposed Amendments should be read in conjunction with the comments we have submitted separately on the Consultation Paper.

Question 1

Do you agree that the SME-FRF & FRS should be amended to cover groups? If not, why not.

We agree with the expansion of the SME-FRF & FRS to include groups.

Question 2

Do you agree that the size criteria set out in paragraph 24 of the SME-FRF appropriately identify a "small group" in Hong Kong? If not, why not?

We agree with the size criteria but consider that any revision to \$100 million, \$100 million and 100 employees to be acceptable if this is the consensus of other stakeholders.

Question 3

Do you agree that at the company level, investments in associates and interest in jointly controlled entities should be accounted for using the cost method? If not, why not? Do you agree that when an investor / a venturer presents consolidated financial statements, investments in associates and interests in jointly controlled entities should be accounted for using the equity method? If not, why not?

We agree with both proposals.

Question 4

Should a complete set of financial statements prepared under the SME-FRS be required to include a cash flow statement? If not, why not?

We do not agree that a complete set of financial statements prepared under the SME-FRS be required to include a cash flow statement. From our contacts, we are not aware of any demand for such statement. We do not consider that recipients of SME-FRS financial statements would have the need or the sophistication to use the information provided in cash flow statement to “develop models to assess and compare the present value of the future cash flows of different entities”, as suggested in the Institute’s letter dated 30 May 2008. The preparation of a cash flow statement involves additional cost and we consider Council should not form any conclusion in this regard without conducting a survey amongst the stakeholders of private companies on the adequacy of SME-FRS.

Question 5

If a cash flow statement is required, do you agree that either the direct method or indirect method can be used for reporting cash flows from operating activities, as set out in paragraph 22.7 of the SME-FRS? If not, why not?

If a cash flow statement is required, we believe that only a cash flow statement prepared using the direct method provides the information necessary for the analysis mentioned in the Institute’s letter dated 30 May 2008. However, a direct method

Question 6

Are there any disclosure requirements included in section 18 to 22 of the SME-FRS that you consider are too onerous for SMEs and therefore should be excluded? If so, what are they and why?

We do not consider the disclosure requirements are too onerous.

Yours faithfully

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