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26 September 2008

By post

Mr Steve Ong
Deputy Director, Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

2008 SEP 29 AM 11:11

Dear Mr Ong

HKICPA Exposure Draft of Proposed Amendments to Small and Medium-sized Entity Financial Reporting Framework and Standards (SME-FRF & SME-FRS) to cover Group Accounts and Cash Flow Statements

Thank you for your letter dated 12 June 2008 inviting our comments on the above.

As requested in the Exposure Draft, we would like to answer the questions as follows:

(a) *Question 1: Do you agree that the SME-FRF and SME-FRS should be amended to cover groups? If not, why not?*

We support the proposal of amending both the SME-FRF and SME-FRS to cover groups.

(b) *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 consider that the three size criteria set out in paragraph 24 are generally in line with the market understanding of SMEs. The criteria will, however, need to be kept under review in light of changes in legislation including the Companies Ordinance, which have specific provisions applicable to SMEs.

(c) *Question 3: Do you agree that at the company level, investments in associates and interests 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*

Chairman Bank of China (Hong Kong) Ltd
Vice Chairmen Standard Chartered Bank (Hong Kong) Ltd
The Hongkong and Shanghai Banking Corporation Ltd
Secretary Eva Wong Mei Seong

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副主席 渣打銀行(香港)有限公司
香港上海滙豐銀行有限公司
秘書 黃美嫦

associates and interests in jointly controlled entities should be accounted for using the equity method? If not, why not?

Since the net worth of a company is important for credit decisions, we consider that investments in associates and interests in jointly controlled entities should be accounted for using the equity method rather than the cost method.

- (d) *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?*

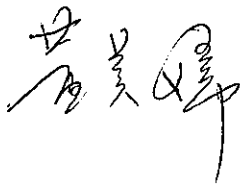
As cash flow statement is a useful tool for lenders and is widely adopted in many countries, we support the proposal of including cash flow statements under the SME-FRS.

- (e) *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?*

We prefer that SMEs' cash flow statements be prepared based on the indirect method.

Should you require any further information from us, please do not hesitate to contact our Manager Ms Stephanie Chan at 2521 1855.

Yours sincerely



Eva Wong
Secretary