NEXIA CHARLES MAR FAN & CO.

馬炎璋會計師行

Certified Public Accountants



September 30, 2008

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

Via Fax: 2865 6776

Dear Steve

RE: CONSULTATION PAPER ON FINANCIAL REPORTING BY PRIVATE COMPANIES AND EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO SME-FRS

I enclose herewith my response to each of the questions raised in the above 2 papers.

I would also set out below my comments on certain issues for your consideration:

2-Tier Financial Reporting Framework

I agree with HKICPA that there is a "gap" under the existing HKFRSs and SME-FRS for larger private companies. The application of HKFRSs has to a certain degree imposed unnecessary reporting burden on these companies without corresponding real benefits derived therefrom. I welcome the initiative taken by HKICPA to address this issue.

To address the "gap" mentioned above, I am in favour of a 2-Tier Financial Reporting Framework. This will create less confusion, least to say hardship, among the preparers, users and auditors.

A possible approach is to develop a financial reporting framework for larger private companies based on the pre 2005 SSAPs with exemption granted to small companies. In the event if the existing SME-FRS is to be maintained, I would incline to adopt HKFRSs with reduced disclosures and revision, where appropriate, for larger private companies. Under such arrangement, the preparers, users and auditors would basically only need to learn and familiarize with two financial reporting frameworks.

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Size Criteria for Small Group

I would suggest that a consultation should be carried out among preparers, users and relevant stakeholders to solicite their views on the size criteria most suitable for the SME. It appears inappropriate that the size criteria be solely determined by HKICPA.

Cash Flow Statement

I am not convinced that cash flow statement, particularly prepared under an indirect method, would provide users of financial statements useful information. I am in favour that the preparation of cash flow statement should be optional.

I hope that the foregoing comments are of use to you in developing an appropriate financial reporting framework for Hong Kong for the larger private companies. Should you enquire any clarification, please do not hesitate to contact me.

Yours sincerely

Thomas Y.T. Wong

Managing Partner



Please express your views to the two consultation documents by completing this Questionnaire which will form a submission to the Financial Reporting Standards Committee.

Consultation Paper on Financial Reporting by Private Companies

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Exposure Draft of 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)

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If you wish to submit additional comments, you may complete and return the electronic questionnaire at http://prd01.hkicpa.org.hk/phpsurveyor/index.php?sid=228 before the consultation deadline, 30 September 2008.