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13<sup>th</sup> September 2004

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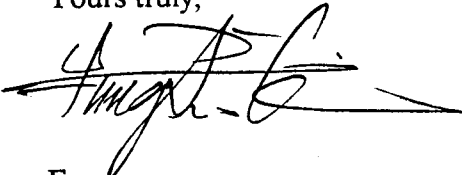
Dear Sir,

**Comments to Consultation Paper – Proposed Implementation of a Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard**

I enclose herewith my comments to the above subject as per attachment to this letter. I am sorry that they come to you late but I just want to express my full support for a separate reporting framework and standard to be implemented in the near future.

Thank you for your kind attention on this matter.

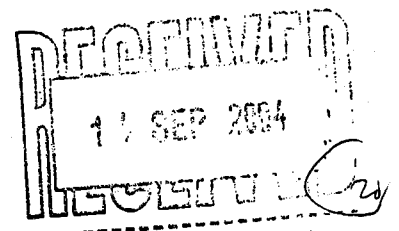
Yours truly,



Enc.

SF/HKICPALTCVRSMEFRS

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## **Comments to Consultation Paper – Proposed Implementation of a Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard**

### **Issue 1 – The need for a financial reporting framework for SMEs**

It is logical to adopt the cost and benefit approach to prepare the financial statements for SMEs. Comparatively the resources of SMEs are limited.

The management of the SMEs normally will represent the main interest of all the shareholders and control the resources of the company. They will not have much care on what the financial statements have been prepared if the preparation has fulfilled their obligation to the other parties, say, the tax authority and the bankers, if necessary.

The consultation paper has already pointed out that different users will demand different needs therefore more consideration should be placed on the requests from the users of the SME financial statements, i.e. the tax authority and the bankers, that what kind of information they would anticipate to have from the preparation.

As a starting point for the development I think the draft SME-FRF is adequate.

### **Issue 2 – The principles underlying SME financial reporting**

If the cost and benefit approach is the right basis for the preparation of SME financial statements, the principles underlying SME financial reporting should be simple and easy to understand and apply.

It is understood that all the shareholders of a company own and control the resources therefore we should play due respect to what they want that financial information should be prepared in a way best reflected their interest.

I agreed to the adoption of historical cost measurement as a basis for the SME-FRF.

### **Issue 3 – Whether SME financial statements should give a true and fair view**

It is better to use a different wordings from “true and fair view” in the audit report for SME financial statements to adopt a different approach of preparation.

I believe there are many people can suggest many good wordings for the replacement and the responsible committee can pick up the best one. The main purple is trying to designate the different adoption from the main GAAP.

At present the “true and correct view” adopted under the Section 141D of the Hong Kong Companies Ordinance should be a good start for consideration. As it exists in our law I think it is easier to persuade our councillor for the proposal of the change in the different approach of preparation of financial statements.

## **Comments to Consultation Paper – Proposed Implementation of a Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard**

### *Issue 4 – which entities should qualify*

I agreed to the criteria adopted in the consultation paper to classify the entities as a SME in order to apply the SME-FRS.

### *Issue 5 – Statutory requirements under the Companies Ordinance*

I agreed to the recommendations for amendments to the Companies Ordinance.

### *Issue 6 – Applicable financial reporting requirements*

I think the cost savings purpose can be achieved as in the course of developing the SME-FRS the simple and historical cost bases have been adopted rather than the main GAAP which requires the fair value measurement and the detailed disclosure of other information in a great extent.

(5.7) I agreed to the proposals of implementation.

(5.8) Yes, I agreed to the adoption should be consistent but not a hybrid of the two.

(5.9) I prefer the SME-FRS should still apply to the consolidated financial statements of a group under the following consideration:

- ✓ The consolidated financial statements are addressed to the shareholders of the holding company which only has a limited group of users without public accountability.
- ✓ If all the shareholders of the holding company have decided to adopt the SME-FRS for the preparation of the financial statements of the group we should consider whether we are acting in the interest of the shareholders bearing in mind at present our basic cost and benefit approach to insist that the consolidated financial statements should be prepared with the main GAAP.
- ✓ Do we have a good reason to explain to the shareholders of the holding company when the consolidated financial statements of the group under the main GAAP appeared a material difference from the one prepared under SMI-FRS? If all the member companies within a group have passed the test of the size I can not understand why the consolidated financial statements prepared under the SME-FRS can not be accepted given the basic spirit that we are going to develop the SME-FRF and SME-FRS thus far.

(5.10) For better comparison I agreed to the proposal that both current and comparative figures should be prepared under the same basis but the reconciliation can be exempted if the difference is immaterial.