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From: KY Ngai
Sent: Monday, August 02, 2004 12:14 PM
To: P.T. Comment Letter
Subject: SME Reporting Draft Comment

Yes, the proposal is a practical issue in light of "cost and benefit" . However, the implementation of a SME-FRF may provide a conspicuous division of professional auditors, the big 4s and the small practicing firms. The former serves large business entities with GAAP and the later mostly deals with SME-FRS for small and medium size companies.

The historical cost measurement basis is simple and in line with the slogan of "cost and benefit" for SME-FRF. Provided that the price fluctuation is not severe, the impact on fairness is minimal.

I agree that a "true and fair view" can only be used for financial statements that are prepared in accordance with main GAAP. However, it is imperative to prepare financial statements with "true and correct view" . Financial statements may have been "properly presented" in form or in procedure. Accordingly, a financial statement that is "properly presented" does not necessarily mean it is "true and correct" . A "properly presented" financial statement has a weak representation of "true" . Therefore, a simple demarcation is drawn respectively that the main GAAP provides a "true and fair" financial statement and the SME-FRS gives a "true and correct " financial statement..

I disagree with the size criteria set forth in the proposal. An entity currently qualifies as a SME may unwilling to be disqualified if the SME reporting standard is much favourable to the entity. Whereas, the entity may choose to divest the revenue or assets in order to remain as a qualifying entity for reporting purpose.

- a. I suggest to lift up the size restriction
- b. I prefer the wordings "true and correct" rather than "properly presented" notwithstanding any difference of SME-FRF to s.141D in reporting requirement.
- c. The requirement of the holding company to prepare consolidated financial statements is not necessary for SMEs unless the consolidated statements are purposed to serve specific needs.

I do agree.

I do not agree with that because a company may manipulate over the criteria by divesting the assets or revenue.

I think it is not necessary to apply main GAAP in preparing consolidated financial statements unless the financial report serves for specific purposes such as finance acquisition. If the financial reports of the entities are prepared with SME-FRS, it may result in an absurd situation that the consolidated report is not an aggregate of the entities due to the applying of the main GAAP.

This proposal is necessary in a view to make the SME report consistent and comparative.

The SME-FRF will not provide a big saving to SMEs in time and money. In future, cancellation of the mandatory audit will be the ultimate resort to lessen the burdens of SMEs in financial reports. However, it is still necessary to have a SME-FRS for specific audit purpose.