



Since 1946

HKICPA

2008 SEP 29 AM 11:44

KCS Hong Kong Limited
8th Floor, Gloucester Tower, The Landmark
15 Queen's Road Central, Hong Kong

Tel +852 3589 8899
Fax +852 3589 8555
www.kcs.com

By mail
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

Your ref
Our ref GNC
Contact Gek Chiu
 +852 3589 8888

24 September 2008

Dear Steve

HKICPA Consultation Paper on Financial Reporting by Private Companies

We refer to the Institute's letter of 26 May 2008 to members on the subject consultation and attach our comments thereon.

Please feel free to contact us, if required.

Yours faithfully
For and on behalf of
KCS Hong Kong Limited

Gek Chiu
Director

Enclosure



Since 1946

HKICPA Consultation Paper on Financial Reporting by Private Companies

Question 1 - Do you agree that relief from applying full HKFRS should be permitted for private companies? Please explain your reasons.

We agree, for the following reasons:

- (1) the full HKFRS which is essentially geared towards the needs of users of listed companies' financial statements, is too complex and extensive for private companies and imposes a reporting burden on them without generating a corresponding benefit or usefulness to the users.
- (2) Most of the transactions of private companies are relatively not complex and may not involve derivatives or financial instruments. As such fair value reporting and other standards may not be relevant or appropriate.
- (3) Private companies' financial statements are mainly used by a small group of key users such as IRD, financial institutions (lenders) and members not closely involved in day to day management of the company – their needs are very different from the more sophisticated investors, financial institutions, professional analysts etc who require more information from financial statements of listed companies.
- (4) Relief from complying with full HKFRS disclosure can significantly reduce costs / time.

Question 2 - Do you agree that the SME-FRF&FRS is an appropriate reporting option for small private companies and groups? Please explain your reasons.

We agree, as small private companies and groups, are usually owner-managed and their activities relatively simple. The users of small private companies' financial statements are mainly the tax authorities and financial institutions, as suppliers of funds. Their needs are served.

Question 3 - Do you agree that large private companies should be provided with an option to choose a simpler reporting framework than HKFRSs? Please explain the reasons for your views.

Yes, we acknowledge that such companies fall under a gap between full HKFRS and SME-FRF&FRS. In providing such a non-mandatory third option, however, care should be exercised to provide clear guidelines on the eligibility of such an option to avoid arguments or differences in view (say between the preparer and user) as to which reporting framework should be used. The differences in disclosure requirements and additional simplifications must be significant enough to differentiate the two frameworks, otherwise it might be simpler to include them as exemptions under the current full HKFRS.

Question 4 – Do you agree with the view of Council stated that the SME-FRF&FRS does not meet the reporting needs of the users of the financial statements of large private companies; and the SME-FRF&FRS should not be expanded to meet those needs. If not, why not?

We are in agreement with Council's view stated in paragraph 34. The companies that are eligible to apply SME-FRF&FRS should not be inconvenienced / disadvantaged by the proposed expansion of the current SME-FRF&FRS to cater to the needs of the large private companies.

2



Since 1946

Question 5 – Do you agree that the Institute should adopt or develop a large private company financial reporting framework? There are 3 options mentioned in paragraph 37 of the Consultation paper, set out as follows:

- (1) **HKFRS with reduced disclosures;**
- (2) **IFRS for SMEs; and**
- (3) **IFRS for SMEs with additional simplifications**

Which of the above options do you think is appropriate for developing large private company financial reporting framework? Please explain your views.

We are in agreement with the Council's view that the full HKFRS and the SME-FRF&FRS reporting frameworks do not meet the needs of the users of large private companies' financial statements. We also agree that this new reporting framework should be simple to understand and apply, will not change frequently and will address issues specific to Hong Kong. Option (1) appears most suitable. Preparers and users are already familiar with some of the standards, and the transition to compliance with the full HKFRS may be easier for companies that may be seeking a listing in the future.

Question 6 – Please identify whether you use the financial statements as a preparer, auditor and/or user and the effect on you in all these cases of the proposed introduction of a large private company framework.

We are a preparer of financial statements. We do not anticipate a significant reduction in costs initially, as resources will need to be put in to understand the new reporting framework.

7