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27 August 2004

Mr Simon Riley  
Technical Director (Financial Reporting)  
Hong Kong Society of Accountants  
4/F., Tower Two, Lippo Centre  
89 Queensway  
Hong Kong

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HKSA

Dear Mr Riley

**Consultation Paper – Proposed Implementation of a Small and Medium-Sized Entity Financial Reporting Framework (SME-FRF) and Financial Reporting Standard (SME-FRS)**

Thank you for briefing members of HKAB on 4 August 2004 on the above consultation paper released by HKSA for public consultation until end-August 2004.

We would like to comment on the issues set out in the consultation paper as follows:

**Issue 1 – The need for an SME Financial Reporting Framework**

In order to facilitate comparisons between the adoption of full compliance of main GAAP and SME-FRS, we consider that the differential reporting exemptions should be set out within the main GAAP instead of having a separate accounting framework distinct from the main GAAP.

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

We disagree with the proposal to dispense with the requirement to revalue fixed assets (see SME-FRS, section 3 for details). Fixed assets, particularly property, often account for a significant proportion of companies' assets. Regular revaluation of property values is necessary in order to estimate the fair value of a company, given the fluctuation of property values.

**Issue 4- Which entities should qualify under SME-FRF**

We consider that qualifying SMEs should meet both of the following criteria (instead of any two of the three criteria as proposed in the consultation paper):

*Chairman* Standard Chartered Bank  
*Vice Chairmen* The Hongkong and Shanghai Banking Corporation Limited  
Bank of China (Hong Kong) Ltd  
*Secretary* Katie Yip

主席 渣打銀行  
副主席 香港上海滙豐銀行有限公司  
中國銀行(香港)有限公司  
秘書 葉其燾

- The total revenue of the qualifying SME on a group basis does not exceed HKD50 million (in line with the threshold which is being adopted for defining SMEs under the industry-scheme on the sharing of commercial credit data of SMEs through a commercial credit reference agency);

**and**

- it does not have more than 100 employees for a manufacturing business or 50 employees for a non-manufacturing business in Hong Kong (which is in line with the definition of SMEs under the SME Loan Guarantee Scheme and the SME Business Installations & Equipment Loan Guarantee Scheme).

#### Issue 5 – Statutory requirements applicable to SME financial reporting

While the proposal to synchronise the SME financial reporting mechanism with S141D of the Companies Ordinance is sensible, we consider it undesirable to exempt qualifying SMEs from the requirement to prepare consolidated financial statements as the information facilitates users in understanding the group's overall financial position and business nature.

#### Issue 6 – Applicable financial reporting requirements

- We suggest that on first time adoption of the SME-FRS, a qualifying SME can present a reconciliation of the equity or use the fair value of assets in the last financial statements immediately preceding the adoption of SME-FRS as the deemed cost. Further, we suggest that the notes to the accounts should include an aging analysis of the accounts receivable, accounts payable and inventories.
- Please clarify whether on first time adoption of the SME-FRS, it is necessary for qualifying SMEs to satisfy the “two consecutive years” requirement in paragraphs 18 & 19 of the consultation paper.
- As SMEs include construction and contracting companies, we consider that the SME-FRS should also cover construction contracts (SSAP 23).

Yours sincerely



Katie Yip  
Secretary