

From: (HK ACC) Phoebe Chiu [mailto:pchiu@newisland.com]
Sent: Wednesday, September 22, 2010 4:00 PM
To: P.T. Comment Letter
Subject: Comments on Exposure Draft of Hong Kong Interpretation 5

Dear Mr Ong

Thank you for your invitation to comment on the Exposure Draft of Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term loan that contains a Repayment on Demand clause.

Basically, the underlying concept of how to classify current and non-current assets/liabilities are well known. However, I would like to rise the following concerns:

1. The protection clause of “repayable on demand” is common practice in bank facilities agreement and regulated by HKMA. Except those giant groups in Hong Kong may have the bargaining power to ask for the removal of such clause, most SME will need to adopt it. But IN PRACTICE, bank will seldom exercise their rights unless at a very unfavorable situation.
2. As far as we adopt, long term liabilities will be used to finance long term assets, this is a well known practice also. This could provide a more appropriate financial picture to the stakeholders in evaluating the Company performance.
3. Further to point 2 above, most of capital-intensive industries such as manufacturing, will raise such long term loan. If it is now required them to reclassify to all current, most of them will probably in a NET CURRENT LIABILITIES position and become GOING CONCERN. This is unfair to these companies.

It seems to me that the introduction of such interpretation and proposed change is more “form over substance” and does not match with business practice. Instead, I will propose to have a disclosure note regarding such clause under the bank loan financial notes as if the requirement to fulfill covenant, it is much enough.

Thank you for your kind attention.

Best regards,
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