29 October 2010

By Fax: (852) 2865 6776

PNG Resources

By email: commentletters@hkicpa.org.hk

Attention: Mr. Steve Ong
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37 Floor Wu Chung House,
214 Queen's Road East,
Wan Chai,
Hong Kong.

Dear Mr. Ong,

Comment on 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 ("HK-Int 5")

We are writing to express our views on the exposure draft of HK-Int 5. We consider that HK-Int 5 is unnecessary, destructive and confusing to financial statement users with the reasons deliberated below:

1. **Common practise of bank term-loan facility to have a call option at bank's discretionary**
   It is a common practice for almost each and every bank across the board to maximize their protections by inserting an option to call back their bank loans at any time at their discretion. The call option does not need to be triggered by an event of default at the borrower's part. To the very extremely, in a bank run situation, a bank can exercise this discretionary call option without any failure at the borrower's part. Should all banks take this conservative approach, we, being the borrower, have no other options in the market but to accept this favourable term to banks;

2. **Mislead financial statement readers**
   When the term-loan is reclassified from non-current liability in the current reporting regime to current liability in the proposed HK-Int 5, we do believe that many companies may have current liabilities exceeding current assets not because of any

inability of the reporting entity part in servicing their short-term debts but because of an illusion created by the proposed HK-Int 5. Consequently, net current liabilities may exist in the financial statements and current ratio cannot be derived and quick ratio may be distorted and became useless to all financial statement users. The proposed HK-Int 5 makes no more informative to financial statement users than distort the financial position of the company;

3. **Increase cost of funding**
The proposed change may lead to increase in financing cost as the unnecessary classification of non-current liability in the current reporting regime to current liability in the proposed HK-Int 5 may create an illusion of higher credit risk of a lender than it is. This destructive proposal only gives an execute to bankers to increase their interest rate spread while the interest expenses cost be born by the reporting entity being a borrower. On the same token, equity stakeholders might also demand higher return and dividend payout. This leads to further increase in cost of funding of an reporting entity; and

4. **Illusion of going concern issue and qualification by auditors**
Classifying whole term-loan as current liability in the proposed HK-Int 5 might lead to an illusion of net current liabilities position of a reporting entity and an illusion of going concern issue. This may distort the financial statements and prompts auditors to issue a qualified report on the back of such illusions. This will mislead financial statement users while in reality the chance of a bank in exercising the demand call clause is extremely slim.

In conclusion, we are writing to strongly object issuance of the captioned HK-Int 5 as it is unnecessary destructive and confusing to financial statement users. This proposal adds no more value and is not constructive.

Yours faithfully,
For and on behalf of
PNG Resources Holdings Limited

Financial Controller

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