



位元堂藥業控股有限公司
Wai Yuen Tong Medicine Holdings Limited

29 October 2010

Mr Steve Ong
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37/F, Wu Chung House
213 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

We would like to express our view that the above Exposure Draft of Hong Kong Interpretation 5 should not be implemented and the grounds are as follows:

1. It is very common for a company to obtain financing from a bank. So far as the company repays the loan to the bank in accordance with the repayment schedule, it is unlikely that the bank will exercise the demand clause. If the non-current portion of the loan is classified as current just because of the demand clause in the loan agreement, it will violate the principal of "substance over form".
2. Many companies may have net current liabilities and going concern problem because of the above classification. However, the possibility for a bank to exercise the demand clause is remote under the normal circumstances. It will distort the financial position of a company and mislead the users, that is, the fundamental principal to present the financial statements in a "true and fair view" is not applied.
3. Listed companies may also have the going concern problem because of the above classification. The public will get into a panic as auditors will issue a qualified opinion on the annual reports of the companies and it will significantly affect the stock market.



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4. Bank loans are usually secured by assets such as properties. If bank loans with demand clause are classified as current liabilities, the corresponding assets should be classified as current assets as the banks have the right to realize them in case of default payment made by the company.
5. The demand clause can be disclosed in the note to the financial statements for providing further information to the users rather than the proposed classification of the bank loans as current liabilities.

In conclusion, we object the issuance of the above Exposure Draft as it distorts the financial position of a company and mislead the users.

Yours faithfully

For and on behalf of

Wai Yuen Tong Medicine Holdings Limited

LAO Wai Keung

Financial Controller