宏安集團有限公司
WANG ON GROUP LIMITED
(Incorporated in Bermuda with limited liability)

BY FAX: 2865 6776 AND BY EMAIL: commentletters@hkicpa.org.hk

29 October 2010

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 Sir,

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 would like to indicate our great concern about the captioned exposure draft. Our thoughts are outlined below:-

Firstly, the immediate effect of this exposure draft will cause quite a substantial number of listed companies to have a net current liabilities since long-term bank loans will be reclassified as current liabilities in the statement of financial position. This will give rise to a number of consequences:-

(a) The auditors will issue a qualified audit opinion "Going Concern issue" for these listed companies which have a net current liabilities just because of reclassification of long-term bank loans to short-term bank loans;

(b) In the eyes of the public investors, these listed companies will have liquidity problems (i.e. current ratio is less than 1) as the current liabilities cannot be paid up by the realization of all current assets within one year. Theoretically, unless there is some new funding such as capital raising exercises or other long term finances to be in place, such listed companies may go bankruptcy;

(c) The public investors will become unnecessary panic for this going concern issue;

(d) For some listed companies, they need to comply with specific convenants such as current ratio must not be less than one for bonds. Such reclassification will trigger

香港九龍九龍灣宏光道九號位元堂藥業大廈五樓
5/F., Wai Yuen Tong Medicine Building, 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.
電話/Tel : (852) 2312 8288 傳真/Fax : (852) 2787 3256

(e) the breach of one of the convenants which will result in default and immediate repayment of the entire bonds.

Secondly, due to the liquidity issue companies, the bankers, without choice, have to review their existing facilities granted to these listed companies. Consequently, the bankers may cancel / reduce the existing credit lines used by these listed companies. From the credit point of view, the bankers need to revise upwards the interest rates currently charged to these listed companies with "liquidity problem". The increase in borrowing cost will definitely reduce the profitability of the listed companies. This is detrimental to the status of Hong Kong Stock Market as leading position within the capital market in the world.

Lastly but not the least, as a Financial Controller of the Wang On Group Limited for more than 6 years, I have not received any request from our bankers that any part of the banking facilities needs to be repaid immediately or within a period which is shorter than the original agreed repayment schedule which was set out by the time when such banking facilities were granted. In my view, the immediate request for loan repayment is remote. Hence, the reclassification of long-term bank loan from long-term liabilities.

In sum, we oppose to the implementation of this exposure draft and please re-consider the effect and implications of the captioned exposure draft. You are also drawn to the attention of commercial substance of banking facilities.

Your sincerely,

For and on behalf of
Wang On Group Limited

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Financial Controller