







1850-100 Comment Letter No. 263 recd

18 January 2011

Sir David Tweedie, Chairman International Accounting Standards Board (IASB) IFRS Foundation/IASB 30 Cannon Street London, EC4M 6XH United Kingdom

(By fax +44 (0) 20 7246 6411 & by mail)

Dear Sir Tweedie,

On behalf of the Hong Kong Retail Management Association ("the Association"), I write to reflect our member retailers' serious concerns about the proposed changes to the leasing standards by the International Accounting Standard Board (IASB) issued in August 2010, and earnestly plead with your organization to duly re-consider the implementation of this practice scheduled initially in mid 2011.

Being the most representative retail trade organization in Hong Kong, members of the Association consist of some 400 key retailers territory-wide who operate more than 6,000 outlets and employ over 140,000 workers, accounting for more than half of Hong Kong's total retail workforce.

We trust our views are to a great extent appropriately reflecting the opinions and worries of retailers in Hong Kong, who altogether serving a critical mass of sophisticated consumers including some 7 million residents and over 36 million tourists from around the world each year.

We also believe that our views would reflect the users of our Financial Reports, i.e. our shareholders and the investment community in general. They are now referring more and more to cash flows rather than the cumbersome and difficult to understand Financial Reports that are becoming increasingly academic and theoretical.

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I would like to take this opportunity to set out our members' concerns on the proposed change as follows:

1. Substantial but unjustified changes to Financial Reporting

The proposed change will impact tremendously on lessee financial reporting of the retail industry as it requires all leases to be reported on balance sheet. Subsequently assets and liabilities, and leverage ratios would increase, while capital ratios would decrease. At the same time, rent expenses would be replaced by depreciation and interest expense.

More importantly, as a result of these modifications, key business performance indicators including earnings before interest and tax (EBIT) and earnings before interest, tax, depreciation and amortization (EBITDA) would change accordingly. The Association anticipates the changing accounting paradigm triggered by the proposal would inevitably pose a lot of challenges to corporate management in regard to its strategic decisions and effective communications of corporate KPI ratios to investors.

2. Triggering of Arbitrary Judgments in Computation

The proposed change will require retailers to take on a lot more judgments and estimates simply for the sake of Financial Reporting. Such estimates and judgments do not have to be made under normal commercial circumstances at such early stages, and they are inevitably arbitrary. Management also has to re-examine such estimates from time to time, again not necessary for commercial purposes.

Retailers, for example, would be required to consider the "most likely lease term" when faced with optional renewals. Under normal circumstances, decisions on options to renew leases can be left to be made when the time to exercise the options comes up a few years down the road.

Similarly, contingent rental would have to be measured on the basis of "most likely rental Such terms are very common and estimates of the "most likely rental payment" is time consuming, arbitrary and unhelpful. The methodology of depreciation and interest charges would also mean mismatch of costs against revenue. The former is front loaded while in business reality, the revenue only grows with time.



3. Create Additional Workload & Demands for Extra Resources

The proposed change will also call for a major reshuffle of the required business processes on the part of retailers that necessitates a corresponding overhaul in their accounting, I.T., as well as internal control systems. Retailers would have to enhance their respective systems so that they could be able to capture, analyze and accumulate the necessary data from a portfolio of outlets that may be substantial in number. In doing so, it will inevitably create additional and unnecessary workload to the management and relevant staff. And it will also consume a significant amount of extra resources to support an overhaul of the entire business processes.

In view of the above elaborations, the Association would sincerely request your Board to kindly re-examine its decision to implement the proposed changes on leasing accounting and take into prudent consideration of recommendations put forward by business entities in the international community.

Taking this opportunity, I am delighted to enclose a brief introduction of the Association and its Executive Committee for 2010-2012 for your kind reference. Meanwhile, you may have your office contact Ms. Ruth Yu, Executive Director of the Association at ruth.yu@hkrma.org if you require any further information.

Yours sincerely,

Caroline Mak

Chairman

Hong Kong Retail Management Association

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HONG KONG RETAIL MANAGEMENT ASSOCIATION

The Hong Kong Retail Management Association (HKRMA) was founded in 1983 by a group of visionary retailers with a long-term mission to promote Hong Kong's retail industry and to present a unified voice on issues that affect all retailers. Established for 27 years, the Association has been playing a vital role in representing the trade, and raising the status and professionalism of retailing through awards, education and training.

Today, HKRMA is the leading retail association in Hong Kong with membership covering more than 6,000 retail outlets and employing about half of the local retail workforce. Member organizations include catering, supermarkets, department stores, convenience stores, watch and jewellery stores, fashion and accessories stores, electronic and electrical appliance stores, and specialty stores as well as suppliers, wholesalers and industry related service organizations.

HKRMA is one of the founding members of the Federation of Asia-Pacific Retailers Associations (FAPRA) and is the only representing organization from Hong Kong. FAPRA members cover 17 Asian-Pacific countries and regions.

Our Mission

- 1. To present a unified voice and lobby on issues that affect retailers.
- 2. To exchange and share information on common issues.
- 3. To raise the status and professionalism of retailing through education, training and industry award programmes.

Our Representation

Hong Kong Retail Management Association is being recognized as the leading organization representing retail and the body to be consulted on industry related issues. The Association also makes regular submissions to the Government on behalf of its members on issues that affect the retail industry and continues to initiate discussions with members on major policies to ensure that their interests are being heard.

香港零售管理協會

香港零售管理協會於一九八三年由一班擁有長遠使命的零售商共同創辦。過去二十七年來,本協會在促進本地零售業發展及代表業界意見,一直扮演著重要角色:與此同時,透過教育、培訓及獎項等活動,致力提升零售業的專業地位。

本協會乃香港主要的零售協會,至今會員公司店舗逾六千間,僱員約佔本港總零售僱員的二分一。本協會的會員公司包括飲食店舗、超級市場、百貨公司、便利店、鐘錶及珠寶店、時裝飾物店、電子及電器店、專門店,以及供應商、批發商和與業界相關的服務機構。

本協會亦是泛亞太區零售商協會聯盟香港區的唯一零售協會代表,並爲聯盟之創會會員之一,該聯盟的會員遍及十七個亞太地區及國家。

我們的使命

- 1. 代表業界聲音,就零售商關注的事宜,向有關方面反映意見。
- 2. 促進業界交流及共享資訊。
- 3. 透過教育、培訓及業界獎項,提升零售業的專業地位。

我們的代表性

香港零售管理協會被公認爲業內最具領導地位的機構,並代表業界接受外界有關本港零售業的諮詢。

作爲業界代表,本協會不時就影響零售業的事宜及政策,向政府反映意見,並積極與會員商討 政府條例及有關對策,以保障會員權益。

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Hong Kong Retail Management Association 2010-2012 Executive Committee Members

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Ms. Caroline Mak	Regional Director, North Asia & CEO,	The Dairy Farm Group
	Dairy Farm China	
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Mr. Guy Look	Chief Financial Officer & Executive	Sa Sa Cosmetic Company Ltd
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Mr. Henry Yip	Chief Executive	Pizza Hut Hong Kong Management Ltd
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Mr. Bankee P. Kwan	Chairman	CASH Group – Pricerite
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Mr. Choo Peng Chee	Chief Executive Officer	The Dairy Farm Co Ltd – Wellcome
Mr. Thomson Cheng	Managing Director	ImagineX Management Company Limited
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		Emphasis
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