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By fax & by mail

INLAND REVENUE DEPARTMENT

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ALL CORRESPONDENCE SHOULD BE ADDRESSED TO:—
COMMISSIONER OF INLAND REVENUE,
G.P.O. BOX 132, HONG KONG.

來函編號：
Your Ref.: C/FRSC

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IN ANY COMMUNICATION PLEASE QUOTE OUR FILE NO.

檔案號碼： HQ 502/141 Pt.VI
File No.:

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Dear Mr. Ong,

**Invitation to Comment on IASB Discussion Paper on
Preliminary Views on Leases**

Thank you for your letter dated 27 May 2009 addressed to the Commissioner of Inland Revenue.

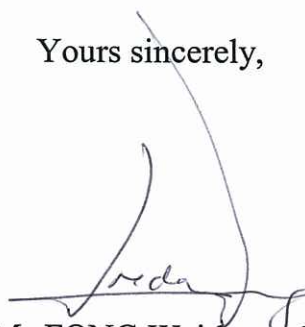
As regards the captioned Discussion Paper on *Preliminary Views on Leases* (the "DP"), I would like to set out the Department's views as follows:

- Question 3 : The Boards' analysis is agreeable.
- Question 23 : The presentation of the right-of-use asset on the basis of the nature of the leased item and separate presentation of leased assets and owned assets are both informative and easy to understand and implement.
- Question 24 : The lessee issues like the accounting for lease incentives, lease modifications and acquisition of leased property during the lease term at an amount not contemplated in the recognized obligation should be addressed in the Boards' joint lease accounting project.
- Question 25 : The lessor's right to receive rentals under a lease meets the definition of an asset with reference to the basic characteristics of an asset as highlighted in paragraph 3.13 of the DP.

While we understand that the Boards have not stated in the DP their preliminary views on disclosure of leases in the financial statements, disclosure is an issue that causes our concern as it would facilitate the differentiation of hire purchase agreements from other leases for tax purposes. A “hire purchase agreement” is defined under section 2 of the Inland Revenue Ordinance (Cap. 112) as “an agreement for the bailment of goods under which the bailee may buy the goods, or under which the property in the goods will or may pass to the bailee”.

Apart from the above, the Department is largely neutral or has no particular comments on the questions raised in the DP.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Freda', with a long, sweeping flourish extending upwards and to the right.

(Ms FONG Wai-hang, Freda)
for Commissioner of Inland Revenue