CRG
沿海物業集團
沿海物業集團有限公司
COASTAL REALTY GROUP LIMITED

25th February 2005

Standards and Technical Department
Hong Kong Institute of Certified Public Accountants
4th Floor, Tower Two, Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

**RE: DRAFT INTERPRETATION 24 REVENUE
PRE-COMPLETION CONTRACTS
FOR THE SALE OF DEVELOPMENT PROPERTIES**

We are a listed company with property development in the PRC as one of our major businesses.

We refer to the Draft Interpretation 24 Revenue-Pre-completion Contracts for the Sale of Development Properties and write to express our disagreement on the proposals contained in the Draft Interpretation. We do not see the reason why the commonly used "stage of a completion method" policy can not be a generally accepted accounting principle as applied to property developers. We believe that accounting policy should be set to best reflect the economic value generated from the operating activities of an entity in the financial statements in alignment with the time frame in which such economic value was generated. In the case of a property developer, its operating activities are the development of properties for sale which in our context comprise mainly project identification and evaluation, project planning, project design, project construction management, project sale plan implementation and management and project completion approval and hand over management. The development process usually takes more than 12 months to complete. Like long term construction project, the economic value of a project is generated by the developer as the

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development and sales of the project make progresses. Based on the same fundamental accounting concept as applied to long term construction contracts HKAS11 (SSAP 23) we do not see the reason why the "stage of completion method" accounting policy is not an appropriate method for accounting the revenue and profit arising from the sales made by a developer during the development process. In an extreme borderline situation, under the "completion method" a deferral of the completion date of a project from the last day of a financial year to the first day of the next financial year would result in the whole revenue and profit reflected in that next financial year. Such an accounting treatment will obviously cause a distortion in the financial results reported in these two financial years that the revenue and profit are reported in a financial period unsynchronised with the financial period in which the operating activities generating such revenue and profit occurred.

In the event that the completion dates of a developer's projects are not spreaded evenly over the years, the "completion method" will give rise to an erratic fluctuation in the profits reported from year to year and the following drawbacks will emerge:

(a) The application of financial models or ratio analysis which use profit as a parameter will not be meaningful if not misleading e.g. the commonly used price-earning ratio analysis;

(b) Dividend policy may be affected as profits are not timely reflected;

(c) Performance related incentive plan may be less effective when financial results are not accounted for on a timely basis that financial reward cannot be delivered to generate a timely incentive drive; and

(d) In the case of a scalable development, the pattern of the financial results reported will vary with the number of phases that the development is divided and thus causing comparison of the performance by different developers difficult or not meaningful. For example, one developer may take 3 years to complete a development by one single phase while another developer may carried out a development of the same size by 2 phases with the completion of the first phase in one and a half years and the second phase in the next following one and a half years. The operating activities undertaken by these two

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developers in these 3 years are similar but the patterns of the financial results reported by them will be different under the "completion method".

In light of the foregoing, we are of the view that like long term construction contracts, an accounting standard should be set to cope with the particular situation of property development business so as to reflect the financial results of property developers in line with the fundamental accounting concept and the commonly used "stage of completion method" should be allowed to be used continuously by developers in the absence of a formalized accounting standard in this respect.

Yours faithfully
COASTAL GREENLAND LIMITED

FINANCIAL CONTROLLER
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