

Direct Tel 2830-5111  
Direct Fax 2907-3393  
E-mail michael.moy@hysan.com.hk

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14<sup>th</sup> August, 2002

Mr. Roger Best  
Chairman, the Financial Accounting Standards Committee  
The Hong Kong Society of Accountants  
4<sup>th</sup> Floor, Tower Two, Lippo Centre  
89 Queensway  
Hong Kong

Dear Mr. Best,

**Re: Change in Accounting Treatment for Investment Properties**

We are writing to express our opinion towards the possible changes in accounting treatment for investment properties which the Hong Kong Society of Accountants (HKSA) is currently contemplating. Given HKSA's intention to amend the Hong Kong Statements of Standard Accounting Practice (SSAP) to harmonize with the equivalent International Accounting Standards Board's (IASB) standards, the present standard with respect to accounting for investment properties (SSAP13) could be revised with a view to achieving higher convergence with the equivalent International Accounting Standard (IAS) – IAS40 (Investment Property). However, the direct convergence of SSAP13 to IAS40 would cause significant distortion in the reported financial results of Hong Kong property investment companies in a way that shareholders (particularly non-professional investors) may find confusing and difficult to understand. In view of the potential impact to the investment public, we would like to bring our concerns and suggestions to the attention of HKSA.

Under the present IAS40, leasehold properties do not qualify as investment properties and

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are treated as operating leases. However, for places like Hong Kong where properties are generally held under long-term leases, historical cost-based accounting treatment would not truly reflect the economic value of property assets. Furthermore, it is often difficult in practice to distinctly separate value of land from building. To address these issues, the IASB has recently proposed some amendments to IAS40 that would allow leasehold properties to be classified as investment properties and be stated at fair market value. Nevertheless, the draft of the amended version of IAS40 is still fraught with distortionary effects on reported financial results.

The proposed amended IAS40 requires changes in fair values of investment properties to be recorded in the income statement rather than taken directly to the investment property revaluation reserve. As a result, the reported net profit of a property investment company could then be dominated by property value movements and could become much more volatile. For property investment companies like Hysan, investment properties are generally held over a considerable period of time rather than being traded frequently. In other words, rental yield management is the normal core operation. Therefore, the reported net profit should predominantly reflect the company's operating results from managing property assets and not be overshadowed by assessed property value movements. Consequently, in considering the harmonizing of SSAP13 with IAS40, if there are changes to SSAP13 along the lines of the proposed amended IAS40, we would suggest differentiating the assessed movements of property asset values from the operating results arising from managing property assets when accounting for net profit. By doing so, investors would not be confused by the increase in volatility of net profit as well as the resultant distorted financial ratios such as EPS and ROE. Moreover, given that there is no realized income and cash flow associated with assessed increases in property value, differentiating the unrealized gains from distributable profits would be necessary so that investors would be aware that profits arising from assessed value changes are not distributable. Other than the distortion to reported financials, tax treatment for unrealized gains and losses resulted from assessed changes in property asset values would be of our concern should these items be recorded in the income statement. Logically, these gains and losses should not be included in the assessable profits for the determination of income tax because they are unrealized. However, without any clarification, tax treatment for these unrealized gains and losses remains uncertain.

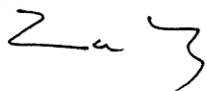
We believe that the current SSAP13 already allows an accurate presentation of Hong Kong property investment companies' financial positions. If HKSA nevertheless wishes to harmonize more with IAS40, we would like to see the above issues be addressed first. We anticipate that a significant amount of discussions would need to take place to address and clarify these issues. Thus, we suggest that the HKSA should take adequate time to study the concerns and suggestions carefully so as to maintain a high and accurate standard of financial reporting.

Thank you for your kind attention.

Yours sincerely,

For and on behalf of

HYSAN DEVELOPMENT COMPANY LIMITED



Michael C.K. Moy

Chief Financial Officer and Director

cc: Mr Alvin Wong