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Our ref FKHC/20

4 March 2005

Dear Sir / Madam

Exposure drafts ("ED") Interpretation 24 – Pre-completion contracts for the sale of development properties

We welcome the Institute's initiation to eliminate the divergence amongst property developers in their revenue recognition policies. We support that the Interpretation does not prescribe when such revenue should be recognised as the sale arrangements between property developers and their customers could vary among the property developers and in different property sale projects.

We set out below our view on the preferred transitional provision as specifically requested by the Institute in the "Invitation to comment" covering note and our other comments which we believe would improve the drafting of the Interpretation.

1. Transitional provisions

Except for prospective application (2), we find that the possible transitional provisions and the full retrospective application are technically correct. Prospective application of a new accounting policy is usually applied to transactions or estimates after a specific date. Under prospective application (2), application of the Interpretation is based on accounting periods and would result in a reversal in the income statement in the first year of adoption of amounts recorded in previous years' income statement. We accept this approach for changes in estimates but do not support it where there is a change in policy, such as here.

2. Other matters - conclusion that HKAS 18 (or SSAP 18 as appropriate) is the only appropriate accounting standard

The proposed Interpretation concludes that HKAS 18 (or SSAP 18, as appropriate) is the only appropriate accounting standard to account for pre-completion contracts for development properties. Given that the proposed Interpretation and other HKASs/HKFRSs do not define the term "development properties", the proposed conclusions would have the risk of imposing an accounting treatment irrespective of whether the contracts were in fact negotiated between property developers and their customers.

To resolve the issue identified above, we suggest rewording paragraphs 6 and 7 of the ED as follows:

Paragraph 6

“If the pre-completion contracts for the sale of development properties are not specifically negotiated for the construction of the properties, then the contracts in question ~~The pre-completion contracts for the sale of development properties~~ do not meet the definition of construction contracts set out in HKAS 11 or SSAP 23, as appropriate, ~~because the contracts in question are not specifically negotiated for the construction of the properties.~~ Accordingly, the stage of completion method as required ~~allowed~~ under these Standards shall not be used

Paragraph 7

“Property developers shall apply HKAS 18 or SSAP 18, as appropriate, in recognising revenue arising from pre-completion contracts for the sale of development properties that do not fall within the scope of HKAS 11 or SSAP 23, as appropriate, and”

We trust you find our comments helpful.

Yours faithfully,

