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4 March, 2005

Our Ref: THKF/IANF

Dear Sir

**Draft Interpretation 24 Revenue – Pre-completion Contracts for the Sale of Development Properties**

We are responding to your invitation to comment on the above draft interpretation on behalf of the Hong Kong firm of PricewaterhouseCoopers.

We welcome the opportunity to respond to Draft Interpretation 24 Revenue – Pre-completion Contracts for the Sale of Development Properties (the "Draft Interpretation"), and appreciate the willingness of the Hong Kong Institute of Certified Public Accountants' Council ("Council") to provide guidance in this area, where we believe practice has been varied.

Overall we consider the Draft Interpretation to be useful and to be a valid interpretation of the requirements of HKAS 18 (SSAP 18) and HKAS 11 (SSAP 23). There are, however, a number of areas in the Draft Interpretation in which clarification and further guidance would be helpful to preparers.

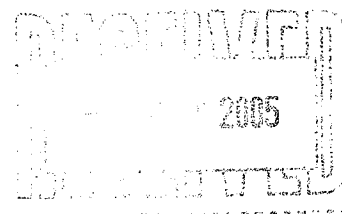
**Specific matter raised for consideration – transitional provisions**

Council sought comments on the three possible transitional provisions appended to the Draft Interpretation, and on a fourth option of not introducing a transitional provision in the Interpretation, which would result in full retrospective application.

Since the Draft Interpretation seeks to interpret, rather than amend, HKAS 18 (SSAP 18) insofar as it applies to pre-completion contracts for the sale of development properties, we believe that the most appropriate solution is to apply the Draft Interpretation retrospectively, with restatement of comparatives, in accordance with HKAS 8.

Nevertheless, we would be able to support a prospective application of the Draft Interpretation if the Interpretation is to be effective for annual periods beginning on or after 1 January 2005. This concession would be supported in order to provide relief to entities that currently account for pre-completion contracts for the sale of development properties using the stage of completion method and that may otherwise have insufficient time to obtain the required information in respect of comparative periods. We support a 1 January 2005 effective date for this Interpretation for the reasons set out later in our comment letter.

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In light of our comments above, and subject to a 1 January 2005 effective date, we believe that the first proposed transitional provision's ("prospective application (1)") is therefore the most appropriate. This provision allows the Draft Interpretation to be applied prospectively to pre-completion contracts entered into on or after the effective date of the Interpretation, with earlier application encouraged.

We do not support either "prospective application (2)" or "limited retrospective application", as both of these transitional provisions require an entity to identify the aggregate adjustment required to opening retained earnings; if this information will be available for all entities in advance of their first reporting date subsequent to the effective date of the Interpretation, we believe that full retrospective application should be required.

#### **Other comments**

##### ***Scope of HKAS 11 (SSAP23)***

We agree with the conclusion in Paragraph 6 that pre-completion contracts for the sale of development properties do not meet the definition of construction contracts. However, we believe that a Basis for Conclusions paragraph should be added to the Draft Interpretation to explain the difference between:

- (a) a specifically negotiated contract for construction of a property; and
- (b) the construction and sale of various units that would be developed materially in accordance with existing plans irrespective of the identity of particular purchasers.

Although we agree with the conclusion in Paragraph 6 that the stage of completion method of recognising revenue is not appropriate for pre-completion contracts for the sale of development properties, there is no explanation in the Draft Interpretation of the basis on which this conclusion was reached. We believe that the Draft Interpretation should provide explicit reasoning supporting the conclusion reached in a Basis for Conclusions paragraph. In particular, we believe that the Basis for Conclusions paragraph should explain that:

- (a) the sale of a property that is not subject to a specifically negotiated construction contract is the sale of a good rather than the rendering of a service; and
- (b) application of the revenue recognition requirements of paragraphs 14-19 of HKAS 18 (paragraphs 13-18 of SSAP 18) is the appropriate treatment for the sale of goods.

##### ***Timing of revenue recognition***

Paragraph 7 of the Draft Interpretation makes reference to paragraph 14 of HKAS 18 (paragraph 13 of SSAP18) being the appropriate guidance for determining when revenue should be recognised. However, there is no discussion of the circumstances in which these criteria would be met in the context of a sale of a development property in Hong Kong or the PRC. In the absence of further guidance, the Draft Interpretation may not result in consistent accounting, and hence comparability of financial statements; this is one of the stated objectives of the Draft Interpretation.

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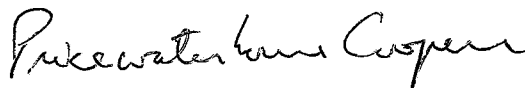
We believe that additional guidance should be provided to assist preparers of financial statements in determining when the risks and rewards of ownership have been transferred. It may be helpful to obtain comments from those involved in, and those providing services to, the real estate industry; we would be willing to contribute to any working group established for this purpose.

***Effective date***

We believe that the Draft Interpretation will assist in the convergence of Hong Kong accounting practices vis-à-vis pre-completion contracts for the sale of development properties with IFRS. In recognition of the importance of a broad-based convergence with IFRS for annual periods beginning on or after 1 January 2005, we believe that the Interpretation should also be effective for annual periods beginning on or after 1 January 2005. However, if the Interpretation will require retrospective application, we recognise that this timeframe may not be practicable (see our comments in relation to the transitional rules, above).

If you have any questions in relation to this letter, please do not hesitate to contact Tommy Fung (852 2289 1829), or Ian Farrar (852 2289 2313).

Yours faithfully,



PricewaterhouseCoopers