The Effect of Fair Value Accounting in HKAS 40 on Real estate companies Listed in Hong Kong

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Abstract

I investigate the effect of Hong Kong Accounting Standard 40 Property Investment on the real estate companies listed in Hong Kong, when fair value model is used. In HKAS 40, the investment property is recorded at fair value and the fair value changes is recorded in the current period's profit, which results in the increase in the company's financial ratios increase in Return-on-asset and Return-on-equity, and decrease in Debt-to-assets. Meanwhile the fair value changes account for quite a large portion of current period's profits. The empirical evidence drew from the study on the sample companies indicates that the fair value of investment property is relevant to the investors when they are making economic decisions related to the respective company. Finally, the figure of fair value on investment property is reliable because most listed real estate companies employ an independent valuer to estimate the value of their investment property.

1. Introduction

With the recovering of Hong Kong economy since 1997 and intensive expansion of global economy around the world, Hong Kong needs a single set of high quality, understandable and enforceable financial reporting standards to fulfill its role as one of the international financial centers in the world. With a total market capitalization of over US$ 1.69 trillion as of February 2007, the Hong Kong Stock Exchange ranks seventh in the world by market capitalization of listed companies.[1] This indicates the necessity to converge Hong Kong Accounting Standards with International Financial Reporting Standards ("IFRSs"). From its inception in 1973 until it was recognized into the International Standards Board (IASB) in early 2001, the International Accounting Standards Committee developed 41 standards, known as International Standards. The global accounting standards facilitate investors seeking investment opportunities all over the world and similarly companies to seek capital at the lowest price anywhere. In 2002, the European Union adopted an accounting regulation requiring all publicly traded EU companies to use International Financial Reporting Standards developed by the IASB, rather than their home-country standards, starting from 2005. In all, more than 100 countries have converged with IFRSs and some countries are in the process of doing so. In converging with IFRSs, Hong Kong stands with other key capital markets such as Europe. Further, Mainland China recently released its Chinese Accounting Standards System that brings about substantial

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[1] List of stock exchanges sourced from World Federation of Exchanges (March 2007), http://en.wikipedia.org/wiki/List_of_stock_exchanges

convergence with IFRSs from 2007 for listed companies.[2]

After adopting the IFRSs, there are several accounting standards raising the disputations among interest-related parties, one of which is about fair value accounting on investment property (ISA 40 / HKAS 40). To IASB this is the first time a fair value accounting model for non-financial assets, which expands the frontiers of fair value accounting. It is one of the current trends in IFRSs that more assets are being reported at fair value, rather than at cost, on the balance sheet. The debates among managers, investors and accounting standard-setters are mainly concerned about the disclosure and recognition of investment property at fair value and recording the gain from revaluation reserve into the current period profit. The fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of investment property reflects, among other things, net rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions. Supporters believe that information about fair value of investment property and about changes in its fair value is highly relevant to users of financial statements for evaluating the present financial condition of the reporting entities and better assessing their past performance and future prospects. And incorporating more information in the financial statements makes them more informative, with potential

[2] Information Paper of Setting Hong Kong Financial Reporting Standards, Preface to Hong Kong Reporting Standards, Hong Kong Institute of Certified Public Accountants.

advantages to investors, creditors, managers and other interested parties. In their view, rental income and change in fair value on investment property are inextricably linked as integral components of the financial performance of an investment property and measurement at fair value is necessary if that financial performance is to be reported in a meaningful way. Those who oppose measurement of investment property at fair value claim that there is often no active market for investment property (unlike for many financial instruments). Real estate transactions are not frequent and not homogeneous. Each investment property is unique and each sale is subject to significant negotiations. As a result, fair value measurement will not enhance comparability because fair values are not determinable on a reliable basis, especially in some countries where the valuation profession is less well established. And measurement at fair value is too costly in relation to the benefits to users. (IASC, 1999, B46)

My purpose of this paper is to exam the effect of fair value accounting in Hong Kong Accounting Standard 40 Investment Property on the Hong Kong listed real estate companies and to seek the effect on the financial statement and on the investors' economic decisions. I choose 32 listed companies from Hang Sang Composite Index Series – Industry Index of Property & Construction as sample companies. By observation and collection data from their financial statements, I explore the fair value accounting effect on their financial ratios. Using a model of regression, the coefficients demonstrate whether there is a significant positive relation between the annual rate of return and the fair value changes on investment property. As to the reliability of the fair value on investment property, I will see the requirements from Hong Kong Exchange imposed on the companies to list on the main board.

2. Background and hypothesis

Hong Kong Accounting Standard 40 (HKAS 40) is based on International Accounting Standard 40 (ISA 40) investment property without major textual differences by Hong Kong Institute of Certified Public accountants (HKICPA). HKAS 40 is replaced for Statement of Standards Accounting Practice 13 Investment Property[3] (SSAP 13), which objective is to prescribe the accounting treatment for investment property and related disclosure requirements. An entity shall apply HKAS 40 for preparing financial statement from the annual period beginning on or after 1 January 2005.

HKAS 40 is applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its purchase price and any directly attributable expenditure which includes, for example, professional fees for legal services, property transfer taxes and other transaction

[3] SSAP 13 was issued October 1987, revised July 1990, September 1994 and December 2000 by Hong Kong Society of Accountant (former HKICPA).

costs.[4] After initial recognition, HKAS 40 deviates dramatically from SSAP 13. Under SSAP 13, the change in the value of investment property is treated as a movement to the investment property reserves, which is part of owners' equity. If the balance of the investment property reserve is not enough to cover the reducing amount of the investment, the deficit amount is recorded as the loss for the current period. One of the main differences between two standards is the treatment on the appreciation of investment property, because when there is a loss in estimating the fair value of investment property the amount is recorded to the profit and loss account in any case. After adapting HKAS 40, the companies will record the gain on increase in fair value of investment property in the operating profit, instead of recording as "revaluation reserve" in the owner's equity.

Even though managers are given the discretion on choosing its accounting policy either the fair value model or the cost model to apply to all of its investment property, it is obviously the fair value model preferred, which can be seen from the requirement to report the fair value of investment property in the notes of the financial statements and from the barrier that the Standard imposes on to switch back from fair value model to the cost model. When using the fair value model, no matter gain or loss arising from a change in the fair value of investment property, it shall be recognized in profit or loss for the period in which it arises. Instead of recording the increase amount in the equity, it is directly recorded in the current income statement. This

[4] This paper will not discuss about measurement at initial recognition, because there is no significant change of HKAS 40 from SSAP 13 in this aspect.

supports the concept of “comprehensive income”, because the unrealized gain on investment property is included in the income statement[5]. Since the fair value accounting provides more information, do investors regard the fair value of investment property relevant to their economic decision? I hypothesize the following:

H_0: The investors observe the fair value of investment property is relevant to their economic decisions to respective companies.

3. Literature review

As mentioned above, fair value accounting is a hot topic in financial reporting research. Extensive research papers are concerned with the relevance and reliability of the fair value accounting treatment. Ray Ball (2006) investigated in International Financial Reporting Stands and concluded that IFRS provide more accurate and comprehensive financial statement information, so that investors are given more-timely information about economic gains and losses of the company. But there are many potential problems in the implication of fair value accounting, like reliability. In the research paper of Richard, Mary and Karl (2001), they studied the reliability of appraised property value estates for UK investment property firms and found out that fair value estimates are considerably less biased and more accurate measures of

[5] Comprehensive income is defined by Financial Accounting Standards Board as all changes in equity during a period except those resulting from investments by owners and distributions to owners. It includes all revenues and gains, expenses and losses reported in net income, and gains and losses that bypass net income but affect stockholders’ equity

selling price than respective historical cost amounts. They further gave the evidence that appraisals conducted by external appraisers result in relatively more reliable fair value accounting estimates (i.e, lower conservative bias, greater accuracy and lower managerial manipulation).

One major difference of HKAS 40 from SSAP 13 is that the gain from the fair value increase on investment property is recorded in the income statement, rather than in the owners' equity part of the balance sheet. The observation results of Stephen (2006) indicate that recognizing unrealized gain on investment property in the income statement does not provide superior value relevant information than recognizing unrealized gains in the revaluation reserve on the balance sheet. It suggests that it does not matter which of the two alternative accounting treatments is used to recognize unrealized holdings. To the investors what matters is the consistency in the use of the chosen alternative accounting treatment by a company for the purpose of comparability over time. On the other hand, as the components of income statement become more transparent investors and other users of financial statements will be more likely to focus on those individual accounts in evaluating the quality of earnings and in assessing the likelihood that past reported income can be used to forecast future financial performance, who used to focus on the bottom line of the company. In addition, financial statement users can obtain all the data reporting a company's economic activity in one place and then sort out the information to suit their own purpose.

4. Sample selection and description

4.1. Sample selection

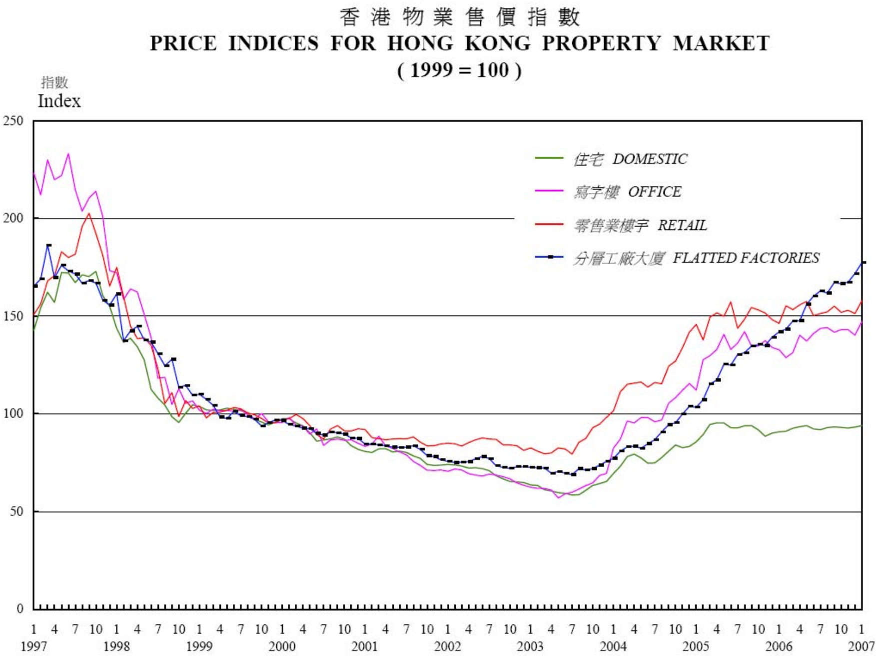
The Hang Sang Composite Index Series (HKCIS) – Industry Index is classified by the Hang Seng Industry Classification System (HKICS), which is a comprehensive industry classification system designed for the Hong Kong stock market. HKICS meets the need for a detailed industry classification that reflects stock performance in different sectors, so I choose the companies included in the Property & Construction Industry of HKCIS as sample companies to reflect the effect of fair value accounting in HKSA 40 on listed real estate companies. The list of company names issued by Hang Seng Index Service Ltd. on 12 March 2007 is illustrated in the Appendix I. Among 35 composite companies I pick up 32 companies that have investment property in their assets, since HKAS 40 only refers to the accounting treatment of investment property and related disclosure requirements.

HKAS 40, as stated, is effected on 1 January 2005, so I collect the data for the period of 2004 and 2005 financial year. In financial year 2005, the companies record investment property at fair value and transfer the change of fair value of investment property into income statement. Because listed companies are required to represent comparative figures for the balance sheet, income statement, cash flow statement, statement of changes in equity for the corresponding preceding period if they want to list in the main board of Hong Kong Exchange, the data of financial year 2004 prepared under the same standards as in 2005 is attainable. In order to compare the difference of fair value and historical value, we need the both the accounting figure including the fair value changes on investment property and excluding the fair value changes. I subtract the fair value changes on investment property from the total asset and the profit for the period.

4.2 Sample company description

From observing 32 companies' financial statements including their notes, I find out that only one company does not apply the fair value model in HKAS 40. The financial information of this company, China Communications Construction Company Limited (stock code 1800), is prepared in accordance with IFRSs and using cost model to present the account of investment property. Because it is a new listing company, up to now there is no new issued financial statements released by the Company. It infers that as long as the real estate companies are listed in the main board of Hong Kong Exchange, they will apply HKAS 40 and using fair value model recommended by HKICPA. Thus, not only small and low profit companies but also big and high profit companies will comply to apply the fair value model by recognizing unrealized gain in the current income statement. According HKAS 40 no matter which model (cost model or fair value model) is choosed, the companies all need to disclose the fair value and revaluation changes of the investment property in the notes following the financial statements. Since the price of property increases from 2003 (seeing from figure 3), revaluation of the investment property can increase the value of the company's asset and simultaneously increase the current period profit, which seems improve the company's performance on the face of financial statements.

Figure 3



Source: http://www.rvd.gov.hk/en/doc/statistics/graph2.pdf, Government Information Center of HKSAR

Table 1 shows that the sample companies are the ones with total assets ranging from HK$ 2,591.41 million to HK$ 230.798.00 million. Their total equity is at average of HK$ 28.017.07 million. The debt to total asset is at the level of 46.46% in mean. It is natural to see the proportion of investment property over total asset is relatively high, 29.32%, because these companies' main business is property development.

Table 1

	Max.	Min.	Mean	Median	Standard deviation
Total assets	230,798.00	3,691.41	42,742.12	25931.60	53,165.88
Total equity	189,923.00	190.02	28,017.07	13939.49	43,597.06
Total debt	60,251.0	1,596.8	14,725.0	11,967.9	12399.09
Debt to total asset	94.85%	5.34%	46.46%	0.43	0.2119
Investment property	116,733.00	0.29	14,642.83	4797.2	23,259.39
Profit for the period	20,038.00	1.27	4,143.91	2278.75	4,941.98
Inv. prop./total asset	87.72%	0.002%	29.32%	21.42%	0.23
Return on asset	38.10%	0.01%	9.59%	7.58%	0.0726
Return on equity	137.61%	0.02%	24.98%	15.21%	0.322

The figures stated are in million HK$.

5. The effect on financial statements

Firstly, I use a particular company to illustrate in detail the effect of fair value accounting on investment property. Kowloon Development Company Limited (Stock Code: 0034) is selected, which principal activities are property development and investment and holding of investment property. In its consolidated income statement, "fair value changes on investment property" is included in the operating income of the company with other operating income and cost. The investment property is reported at the fair value of HK$ 4,147,630,000 in 2005 and restated at HK$ 3,461,940,000 in2004. The fair value changes on investment property (HK$ 505,818,000 in 2005 and HK$ 257,792,000 in 2004) results in the changes on the ratios of Return-on-assets, Return-on-equity and Debt-to-asset in 2005 by 4.82%, 9.17% and -2.12%, respectively, and in 2004 by 3.70%, 7.02% and -1.67%, respectively. The consolidated income statement and consolidated balance sheet are attached in the Appendix II and III.

In general, the accounting treatment of fair value model arrives at the increase in the profit for current period and the total asset of the company. The proportions of fair value changes on investment property to the investment property and profit are on the average of 13.14% and 39.94%, respectively. Including the fair value of investment property in the balance sheet and fair value gain/loss (only 6.45% of the samples record a decrease in fair value of investment property) in the income statement, the financial ratios of the company are different from the ratios when historical cost accounting of investment property is used. The ratio of return on asset is increased by maximum 28.02% and average 3.93%. Meanwhile, the ratio of return on equity is raised by 9.46% at mean, and 5.62% at median. On the contrary, the ratio of debt-to-asset is decreased by -1.95% at mean and -1.09% at median. The ratios of return on assets and return on equity are measurements of a company's profitability, so the change of the ratios can affect the investors or shareholders' assessment on the company's profitability and efficiency to utilize assets and capital. The banks or creditors are interested in the company's long-run solvency, particularly its ability to pay interest as it comes due and to repay the principle of the debt at maturity. So the increase of ROA and ROE and the decrease of the debt-to-assets ratio ratios just because of the switch of the accounting treatment on investment property may confuse the investor and creditors in assessing the real performance of the company.

Table 2
Descriptive statistics for the effect of fair value accounting on investment property at on the assets, equity and debts. The samples are comprised of all available financial data for the financial year 2005 and 2004.

	Max.	Min.	Mean	Median	Standard deviation
ΔFV/Inv. Prop.	49.01%	-3.25%	13.14%	11.73%	0.113709
ΔFV/Profit	152.04%	-58.24%	39.94%	36.13%	0.379914
ΔROA	28.20%	-1.01%	3.93%	2.67%	0.048416
ΔROE	47.06%	-5.22%	9.46%	5.62%	0.115328
Δ Debt-to-asset	0.80%	-16.77%	-1.95%	-1.09%	0.028471

ΔFV/Inv.Prop. – fair value changes of investment property over investment property;
ΔFV/Profit – fair value changes of investment property over current period profit;
ΔROA – difference between the Return on Asset with revaluation increment of investment and without revaluation increment of investment property;
ΔROE – difference between the Return on Equity with revaluation increment of investment and without revaluation increment of investment property;
Δ Debt-to-asset – difference between the Debt on Assets with revaluation increment of investment and without revaluation increment of investment property.

6. The effect on investors

Relevance and reliability are two principal qualitative characteristics that making the information provided in financial statement useful to investors. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events, or correcting, their past evaluations. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. In the current discussion between FASB and IASB, there is a tendency of movement toward sequential approach to applying the qualitative characteristic and relevance is considered first and then other qualities including reliability and faithful representation. (Edith Orenstein, 2005)

6.1. Relevance

The empirical evidence drew from the study on the sample companies indicates that the fair value of investment property is relevant to the investors when they are making economic decisions on the respective company. It is necessary to record the investment property at fair value and report the unrealized gain on investment property in the income statement.

I use a regression model to investigate the relationship between the annual rate of return on stock and fair value changes on investment property and the relationship between the rate of return on stock and the profit changes from last period excluding fair value changes on investment property. The model is following:

$$R_{jt} = \beta_1 \Delta FV_{jt} + \beta_2 \, \Delta ROA_{jt} + \varepsilon_{jt}$$

Where,

R_{jt} – annual rate of return for firm j at time period t

ΔFV_{jt} – fair value changes on investment property at time period t over the market value of total assets

ΔROA_{jt} – profit changes from last period excluding the fair value change on investment property at time period t over the market value of total assets

ε_{jt} – the error term

Table 3 gives that Beta of ΔFV equals 0.599 at the significant level of 0.012, which reveals significant positive relation between the annual rate of return on stock and the fair value changes on investment property. As to the relationship with the profit changes from last period excluding the fair value changes on investment property, it suggests that there is no significant positive relation, which implies the historical cost accounting is not relevant for investors to make economic decisions.

Table 3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.192	.065		2.979	.006
	¦¤ FV	.620	.229	.599	2.707	.012
	¦¤ ROA	.676	.464	.322	1.456	.157

a. Dependent Variable: Rate of return on stock

Besides, Fair value accounting measures and discloses the current value of investment property and provide more information to the investors. Historical-cost number just represents the initial economic value upon obtaining the investment property and does not get valuable feedback about appreciation or depreciation following the acquisition of the investment property. Furthermore, fair value accounting is based on the market value so it reduce the "manager's voice" in favor of the "market's voice" in an economic setting of perfect and complete market. The "market's voice" take its power form the measurement, valuation and reporting of investment property, which are independent of the manager's influence. Last but not least, fair value accounting provides a more complete full disclosure of financial statements and it is compatible with transparency. Accounting transparency means that the financial statements provide true, accurate, and complete information about the business activities and the financial position of a company. Since the financial statements provide transparent and complete information, the confidence of the investors are increased, which is helpful to the Hong Kong' stock market. And the creditors, who supply loans to the companies, and suppliers, who provide materials on credit to the companies, are more confident to do the business with such companies. In turn, such companies are easier to obtain the capital and production materials than those who still use the historical cost on investment property.

6.2. Reliability

The primary argument against fair value accounting is concerning the reliability of the valuation of investment property. The fair-value dissenters contend that if the information is unreliable it should not be used to make financial decision. Historical-cost financial information produces the value of investment property based on its purchase or development cost, not based on appraisals or other valuation techniques. As the historical-cost statements rely less on estimates and more on “hard” numbers, proponents believe that historical-cost financial statements are more reliable than fair-value statement.

According to the rules of the listing of securities on the Stock Exchange of Hong Kong Limited, all valuations of properties held by the listed companies must be prepared by an independent qualified valuer, unless dispensation is obtained from the Exchange. Independent Valuer is an External Valuer who has no current or presently foreseeable potential fee earning relationship concerning the subject properties that would result in potential conflicts.[6] A valuer is a qualified valuer for the purposes of valuation of properties situated in Hong Kong, if he/she is a fellow or associate member of The Royal Institution of Chartered Surveyor (Hong Kong Branch) or The Hong Kong Institute of Surveyors and carries on the business in Hong Kong of valuing properties and is authorized to do so by the rules of the relevant professional institution of which he/she is a member; or the valuer has the appropriate professional qualifications and experience of valuing properties in the same location and category to carry out the valuation. Through observation 32 real estate companies only two

[6] Quoted from the message of the General Practice Division Chairman of The Hong Kong Institute of Surveyors.

companies do not clearly state whether their valuers are independent or not, and the rest employ an independent profession valuer possessing appropriate professional qualifications to estimate the investment property, so I conclude that the value of investment property valued on the open market basis are reliable and at least managers can not manipulate that figure. If the independent valuers have recent experiences in the valuation of similar properties in the relevant location, the reliability can be increased. As the paper studies in previous section that there is strong position relation between the fair value changes on investment property and the annual rate of return on stocks, which means relevance of information is the main concern for the investors, so the reliability should not be an obstacle of applying fair value accounting on investment property.

7. Limitations

The study on the relevance of the fair value and reliability of the amount of fair value on investment property of real estate companies listed in Hong Kong h has some limitations of the samples.

Firstly, the testing sample size is small in this paper. It only contains 32 companies included in the Property & Construction Industry of Hang Sang Composite Index Series HKCIS– Industry Index.

Secondly, the testing periods limited to only two financial years, 2005 and 2004. So the effect of fair value effect indicated during these two years will be continuously true in the following years.

Thirdly, every sample company has its own external valuer to value the investment property at the year end. It depends on the manager discretion to select the valuer and it is not reasonable to assess each valuer's qualification and the accuracy of revaluation amount compared to the market price.

8. Summary

The debate on the application of fair value accounting has last for a long time. I analyze the effect of fair value accounting in HKAS 40 on real estate companies listed in Hong Kong. These companies contain a primary asset of investment property, so recording investment property at fair value has a significant influence on their financial statements. I compare the financial data with the fair value changes on investment property and without it. The effects on the financial statement include higher the current period profit, the ratios of ROA and ROE and lower the ratio Debt-to-assets. The next section compares two qualitative characteristics of financial information, relevance and reliability. The empirical result shows that the fair value changes on investment property reported in the financial statements provide relevant information to the investors for their evaluation on the real estate companies' performance and anticipation the companies' future growth. On the other hand, the reliability can be evaluated from the companies' intention to employ an independent professional valuer for estimating the value of their investment properties. So the reliability of fair value on investment property should not be an obstacle of applying fair value accounting on investment property.

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Appendix I – Company name index

Stock Code	Company name
1	Cheung Kong (Holdings) Limited
10	Hang Lung Group Limited
12	Henderson Land Development Company Limited
14	Hysan Development Company Limited
16	Sun Hung Kai Properties Limited
20	Wheelock and Company Limited
34	Kowloon Development Company Limited
35	Far East Consortium International Limited
41	Great Eagle Holdings Limited
49	Wheelock Properties Limited
83	Sino Land Company Limited
97	Henderson Investment Limited
101	Hang Lung Properties Limited
123	Guangzhou Investment Company Limited
127	Chinese Estates Holdings Limited
171	Silver Grant International Industries Limited
173	K.Wah International Holdings Limited
272	Shui On Land Limited
337	SPG Land (Holdings) Limited
432	Pacific Century Premium Developments Limited
480	HKR International Limited
604	Shenzhen Investment Limited
659	NWS Holdings Limited
683	Kerry Properties Limited
688	China Overseas Land & Investment Ltd.
754	Hopson Development Holdings Limited
813	Shimao Property Holding Limited
914	Anhui Conch Cement Company Limited
917	New World China Land Limited

983	Shui On Construction and Materials Limited
1109	China Resources Land Limited
1800	China Communications Construction Company Limited
2777	Guangzhou R&F Properties Co., Ltd.
3383	Agile Property Holdings Limited
3900	Greentown China Holdings Limited

(35 Constituent Companies)

Appendix II – Consolidated income statement of Kowloon Development Company Limited

Consolidated Income Statement

for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 (restated) $'000
Turnover	3	**1,320,301**	773,425
Other revenue		**5,475**	6,518
Depreciation and amortization		**(1,304)**	(679)
Staff costs		**(51,845)**	(37,824)
Cost of inventories		**(567,785)**	(350,419)
Fair value changes on investment properties	11	**505,818**	257,792
Other operating expenses		**(28,955)**	(56,983)
Profit from operations		**1,181,705**	591,830
Finance costs	4(a)	**(17,694)**	(6,169)
Share of profits of associated companies	4(c)	**10,542**	9,554
Share of profits of jointly controlled entities	4(d)	**7,331**	—
Negative goodwill on acquisition of subsidiaries		**26,482**	—
Profit before taxation	4	**1,208,366**	595,215
Income tax	6(a)	**(144,962)**	(79,919)
Profit for the year		**1,063,404**	515,296
Attributable to:			
Shareholders of the Company	26	**1,059,153**	515,564
Minority interests	26	**4,251**	(268)
Profit for the year		**1,063,404**	515,296
Earnings per share — Basic	8	**$1.87**	$0.92
Dividend per share	9(a)	**$0.45**	$0.32

The notes on pages 45 to 112 form part of these accounts.

Appendix III – Consolidated balance sheet of Kowloon Development Company Limited

Consolidated Balance Sheet

at 31 December 2005
(Expressed in Hong Kong dollars)

		2005		2004 (restated)	
	Note	$'000	$'000	$'000	$'000
Non-current assets					
Fixed assets					
— Investment properties			**4,147,630**		3,461,940
— Leasehold land held for own use			**265,553**		2,060
— Other property, plant and equipment			**39,503**		2,563
	11		**4,452,686**		3,466,563
Goodwill	14		**16,994**		—
Interest in jointly controlled entities	12		**394,507**		—
Interest in associated companies	16		**56,568**		46,026
Investments in securities	17		**65,220**		110,099
Loans and advances			**55,320**		60,158
Deferred tax assets	10(b)		**9,303**		3,223
			5,050,598		3,686,069
Current assets					
Interest in property development	19	**575,298**		400,000	
Inventories	20	**3,194,826**		2,126,450	
Trade and other receivables	21	**320,440**		209,143	
Loans and advances		**63,523**		84,834	
Amounts due from jointly controlled entities	12	**247,192**		—	
Amount due from an associated company		**207**		83	
Derivative financial instruments	18	**25,811**		—	
Investments in securities	17	**242,445**		129,251	
Time deposit (pledged)	30	**38,205**		—	
Cash and cash equivalents		**104,706**		44,497	
		4,812,653		2,994,258	