

**Update****CHEUK NANG PROPERTIES (HOLDINGS) LTD :  
MOVING THE (ACCOUNTING) GOAL POST MAKES NO DIFFERENCE**

If ever there was a question as to whether or not the 'For Sale' sign was hung up at the offices of Cheuk Nang Properties (Holdings) Ltd, a reading of the 1999 Annual Report of this publicly listed company makes it only too apparent.

Since TARGET's last report on this property company (see [TARGET Intelligence Report, Volume One, Number 98](#)), Chairman Cecil Chao Sze Tsung has made it only too apparent as to his intentions (or ambitions) with regard to the company which he controls, via his (effective) equity holding.

The 1999 Annual Report states, on Page 12, under the heading, *Review of Operations*, that the Net Asset Value is \$HK5.45 per share, as at the Balance Sheet Date of June 30, 1999

It is written as follows: *'After the revaluation of the investment properties of the Group carried out by Independent Valuers, the book net asset value per share of the Group is HK\$5.45 which is 5 times the closing market price of the Company's shares of HK\$1.02 as at 28<sup>th</sup> September, 1999.'* (TARGET has not altered the original wording)

According to TARGET's calculations, the Net Asset Value Per Share has been artificially boosted by 78 cents per share by a change in the Principal Accounting Policies, specifically with regard to *'investment properties'*.

It would appear, according to Page 34 of the 1999 Annual Report, that the prior years' method of valuing investment properties did not *'fairly reflect the carrying values of properties'* and so Chairman Cecil Chao has changed the method of valuing properties in order to allow a *'consistent treatment (in respect of valuations) to all properties'*.

One has to conclude, therefore, that the prior year policy of valuing the Company's properties did not *'fairly reflect the carrying values'* and did not allow a *'consistent treatment to all properties'*.

Page 34 concludes that *'The effect of the change is to increase fixed assets and properties revaluation reserve as at 30<sup>th</sup> June 1998 by HK\$162,685,000.'*

This figure of \$HK162,685,000 is equal to about 78 cents per share (\$HK162,685,000 divided by the Issued and Fully Paid-Up Share Capital of 209,844,478 shares).

As it is, valuing properties, anywhere in the world, is an art, and, as such, to a large extent, it must be a subjective determination.

But one would hope that a consistent policy would be applied to the carrying values of a company's properties otherwise it is impossible to estimate the underlying values of a company's fixed assets.

Changing the rules to be applied to the valuations of fixed assets is nice, of course, especially when the changes are advantageous to vested interests.

The following is taken, directly, from the 1999 Annual Report of Cheuk Nang and explains, in accounting terms, the changes that Chairman Cecil Chao has instigated in valuing the Company's properties:

*' In prior years (meaning Financial Years), properties in the course of development which were held for their investment potential were stated at cost or their carrying amounts upon transfer from other classes of assets plus cost of development. With effect from 1<sup>st</sup> July 1998, these properties are stated at valuation on the basis as set out above. This represents a change in accounting policy. In the opinion of the directors, the present policy applies a consistent treatment to all properties held for investment, whether completed or in the course of development, and will fairly reflect the carrying value of these properties in the accounts. This change in accounting policy has been accounted for retrospectively by means of a prior year adjustment to the year ended 30<sup>th</sup> June 1998 and comparative figures have been restated accordingly. The effect of the change is to increase fixed assets and properties revaluation reserve as at 30<sup>th</sup> June 1998 by HK\$162,685,000.'*

### **The Financials**

The situation in Cheuk Nang is, definitely, deteriorating.

For the Financial Year, ended June 30, 1999, the Turnover was \$HK81,917,000, a drop of about \$HK158 million, compared with the 1998 Turnover.

The Profit Attributable to Shareholders was about \$HK31 million, due in large part to ... [CLICK TO ORDER FULL ARTICLE](#)