VinaCapital

VinaLand Limited
Real estate valuations

Information brief

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VinaCapital Investment Management Ltd publishes information briefs on issues of importance to investors in its funds. Below is an explanation of how VinaLand Limited ("VNL") records and values its direct real estate investments.

Valuation Committee
The valuation process is overseen by the Board's Valuation Committee, comprised of independent non-executive directors of the Board.

Treatment of property investments
All real estate investments are initially recorded at their acquisition cost. How property investments are subsequently recorded in the financial statements is based on the status of each project and its intended use.

Until an investment has obtained an investment licence, or other legally enforceable right of ownership that can be transferred to another party, the property is recorded as a prepayment or deposit and carried at cost, less impairment losses, if any. Investments may be recorded as prepayments or deposits for several years, due to the time that it can take the Vietnamese authorities to compensate residents and complete the necessary paperwork to obtain title to a given property.

Once an investment has received appropriate title it is added to VNL's annual revaluation programme. How valuations are recorded in the consolidated financial statements and quarterly Net Asset Value (NAV) of VNL depends on the accounting treatment applicable to the respective property. VNL holds a broad range of property assets, many of which do not all fall under the definition of *Investment Properties*, as stipulated in the *International Financial Reporting Standards* issued by the International Accounting Standards Board. The following table summarises how VNL records its different property assets in the financial statements:

	Type of property	Carried at	Rationale	Recorded in the consolidated financial statements as**
1.	Bare land – unlicensed	Cost*	Properties cannot be revalued until VNL holds a legally enforceable interest.	Prepayments or deposits
2.	Bare land – licensed	Fair value	IAS 40 Investment Property	Investment property
3.	Villa land – assigned for villa development	Fair value up to the date the property is assigned to development for sale	IAS 2 Inventory	Inventory
4.	Villa buildings - construction in process	Construction cost*	IAS 2 Inventory	Inventory
5.	Villa buildings – complete	Inventory*	IAS 2 Inventory	Inventory
6.	Hotel land	Cost*	IAS 17 Leases	Prepaid operating leases
7.	Hotel buildings	Fair value	IAS 16 Property, Plant & Equipment	Property, plant and equipment
8.	Golf courses	Fair value	IAS 16 Property, Plant & Equipment	Property, plant and equipment
9.	Any property held for sale	Lower of (i) carrying amount immediately prior to classify as held for sale, and (ii) fair value less cost to sell.	IFRS 5 Non Current Assets Held for Sale	Assets/liabilities classified as held for sale

* Less impairment adjustments, if applicable.
** Accounting treatment for properties held by subsidiaries of VNL. Properties held by associates are accounted for the same way but recorded as *Investments in associates.*

Timing of revaluations
Each property is independently valued twice annually. The valuation programme is scheduled so that the annual initial valuations of projects are spread across the year. An updated independent valuation is then obtained six months after the annual initial valuation, thus ensuring that at any time each individual property has been independently valued at least once in the preceding six months (see *Independent valuation process* section below to understand the difference between initial valuations and updated valuations). Revaluations may be obtained more frequently for individual properties if there has been an event that the Valuation Committee or Investment Manager believe may have resulted in a material change in the value of a property.

Selection of independent valuers
VNL uses a range of international independent valuers including: CBRE, Jones Lang LaSalle, Savills, and HVS Singapore. The valuer of each property is selected based on the Valuation Committee and Investment Manager's assessment of which valuer is expected to provide the most reliable estimate of the property's fair value based upon their experience in the given sector, geographic location and independence.

Independent valuation process
Two independent valuations are obtained for each property at each initial valuation date. Each valuers' draft report contains a recommended fair value of each property, along with the assumptions used to determine that value. If there is a material difference between the two valuations the Investment Manager reviews the key assumptions to determine the main cause(s) of the difference and discusses the assumptions with the valuers to reconfirm each valuers' respective position. Normally only one valuer is used to provide the updated valuation (this is the valuer who provided the valuation that was used as the primary basis for the previous adopted value).

The Investment Manager summarises the key assumptions and valuation results for the Valuation Committee. The Valuation Committee receives the analysis and copies of the independent valuers' reports for their review. A formal meeting is then convened to discuss the valuation process and results, and agree on each property's value, which is then recommended to the Board for approval.

Quarterly review for material changes in values
In addition to the annual revaluation cycle, at the end of each quarter the Investment Manager reviews the entire portfolio to determine if there are any material changes to projects or other indicators that might mean that the value of a property has materially changed. Subject to the results of this review a more detailed assessment of those properties may be performed. If there is an indication that a property's value has increased then the property will be included in the independent valuation program. If there is an indication that a property's value has declined then an assessment will be made in respect to quantifying the fall in value. This involves either obtaining an independent valuation of the property or determining the change in value of each property based on internal assessment. Based upon the analysis performed by the Investment Manager or the independent valuation report, the Valuation Committee determines whether any valuation adjustments should be recommended to the Board for approval.

Recording of valuations in the consolidated financial statements and Net Asset Value of VNL
Each property is held in a Vietnam incorporated entity or other investment structure which, in turn, is owned by an offshore holding company. The fair values approved by the Board reflect the values of the specific property asset (market value) held by the respective Vietnam entity; therefore the independent valuations do not encompass the assets and liabilities of the Vietnam entities, such as working capital and loans, which are accounted for separately.

The new valuation is recorded through a series of journal entries which essentially updates the given property's value and records the resulting change in value to either net income (for investment properties) or the revaluation reserve (for property, plant and equipment) and to non-controlling interests (for that portion of the increase/decrease in value attributable to minority interests).

It should also be noted that when the value of a property is carried at above its cost then a deferred tax liability is recorded to reflect the fact that the gain on the eventual disposal of the asset may be realised in Vietnam and therefore it may be subject to corporate income tax at a rate of 22%. Similarly, when the value of a property is carried at less than its cost then a deferred tax asset may be recorded if the write-down is considered temporary and expected to be recovered through the eventual sale of the property.

The following example reflects how the revaluation of an investment property held by a subsidiary is recorded by VNL. In this example VNL owns 75% of the company which originally purchased a property for a cost of USD1,000. The property has previously been valued at USD1,160 and has only recently been valued at USD1,400.

	Prior to adjustment	Adjustment	Post adjustment
Assets			
Cash	100	-	100
Other current assets	50	-	50
Investment property	1,160	240	1,400
Total assets	**1,310**	**240**	**1,550**
Liabilities			
Payables	(150)		(150)
Deferred tax liability	(40)	(53)	(93)
Total liabilities	**(190)**	**(53)**	**(243)**
Net assets	**1,120**	**187**	**1,307**
Equity			
Paid in capital	(750)	-	(750)
Retained earnings	(90)	(142)	(230)
Shareholders' equity	**(840)**	**(140)**	**(980)**
Non-controlling interests	(280)	(47)	(327)
Total equity	**(1,120)**	**(187)**	**(1,307)**

PULL OUT/TAKE-AWAY
The valuation of each property is determined in accordance with VNL's valuation policy. Pertinent details of this policy include:

- Assets are held at cost until they receive an investment licence or similar legal documentation.
- When determining the fair value of a property two independent valuers are used at the same date.
- All properties carried at fair value have been valued by independent valuers in the last 12 months.
- All properties are subject to quarterly desktop reviews and may be subject to independent appraisal if there is evidence of material impairment.

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