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NOTIFICATION

To : All Registered Valuers and Probationary Valuers

Date : 30 July 2013

Dear Sir/Madam

VALUATION OF BIOLOGICAL ASSETS ATTACHED TO LAND

As you are aware there is no Standard for the Valuation of Biological Assets attached to the Land and therefore the Board has decided to incorporate it in the Malaysian Valuation Standards. However, before implementing it as a Standard it would appreciate feedback from all Registered Valuers/Probationary Valuers.

Attached herewith is the proposed Standard for your perusal and comments if any. Please revert with your comments **by 15 August 2013**.

Yours faithfully

MAHALEETCHUMI

Registrar
LEMBAGA PENILAI, PENTAKSIR DAN
EJEN HARTA TANAH MALAYSIA

RM/ad
Enc.

MALAYSIAN VALUATION STANDARDS
STANDARD 18
VALUATION OF BIOLOGICAL ASSETS ATTACHED TO LAND

18.1.0 INTRODUCTION

18.1.1 Valuers are frequently instructed to value biological assets attached to land in line with the requirements of IAS 41. IAS 41 requires biological assets that are physically attached to land (e.g. oil palm trees in an oil palm plantation or rubber trees in a rubber plantation) to be valued separately from the land. IAS 41 acknowledges that there may be no separate market for biological assets attached to land, but that an active market may exist for the combined assets (the plantation as a whole). IAS 41 allows the value of bare land and land improvements to be deducted from the value of the combined assets to arrive at the value of biological assets.

18.1.2 There is a major issue in plantation valuations in Malaysia that needs to be clearly understood. Plantation lands have been a source of land banks for developments. As urban boundaries expanded, plantation companies have lands in their books that reflect either market value for the existing use as plantations or market value with development potential for conversion to industrial or building categories as provided for under the National Land Code for Peninsula Malaysia or related provisions of the laws applicable in Sabah and Sarawak. For purposes of financial reporting, plantation lands should be valued at market value based on the existing use and not at market value with development potential. If valued at market value that reflect development potential, then this must be clearly made known to shareholders so that shareholders understand that there will be a consequent deficiency in asset return.

As such, the market value for biological asset is derived from the value of the plantation as a whole in its existing use as an agricultural holding. Conceptually, the market value of biological asset is arrived at after deducting from the value of the whole, the market value of the land (in its existing use as an agricultural land) as evidenced by market sales, the value of buildings and structures, the value of

plant, machinery and equipment, motor vehicles, office furnitures and fittings and other chattels.

18.2.0 STATEMENTS OF STANDARD

18.2.1 The Valuer should estimate the Market Value of the property in its existing condition as an agricultural property for the purposes of estimating the value of biological assets.

18.2.2 The Valuer may use any of the three approaches or methods to valuation, i.e. the Comparison Approach or Method, the Cost Approach or the Income Approach or Method. But in estimating the value by any of these approaches/methods, it is important that it must be based on market derived sales or market derived inputs.

18.2.3 In the event that the income approach is used, the Valuer should recognise or pay close attention to the certainty of the cash flow and the discount rate should reflect appropriately that degree of certainty and risk. The DCF should also be market derived.

18.2.4 From the value of the plantation as a whole, the value of the biological asset can be derived by deducting from the value of the whole, the market value of the land (in its existing use as an agricultural land) as evidenced by market sales, the value of buildings and structures, the value of plant, machinery and equipment, motor vehicles, office furnitures and fittings and other chattels

18.2.5 In arriving at the bare land value the valuer may use comparables market sales of similar raw plantation lands.

18.3.0 EXPLANATIONS

18.3.1 Where market values for an asset are disclosed in the accounts and when there is another value that is evident, then such value with development potential over and above the agricultural supportable value should also be stated in the accounts for the benefit of shareholders and potential investors.