

ABSTRACT

Firm investment decisions have proved to be directly related to financial factors. Investment decisions of firms with high creditworthiness (according to traditional financial ratios) are extremely sensitive to the availability of internal funds; less creditworthy firms are much less sensitive to internal fund availability. The overall objective of this study was to examine firms' investment opportunities in terms of market-to-book ratio, Tobin's Q, working capital ratio, and the availability of financial resources in terms of cash flow ratio; operating liabilities ratio and financial liabilities ratio affect on investment ratio.

For this study, the researcher uses 2003-2007 financial data of Real Estate companies listed on Shanghai Stock Exchange. There were a total of 29 companies providing complete data from 2003 to 2007. The data was analyzed using simple and multiple linear regressions.

The results have shown that there was statistically significant relationship between Tobin's Q, cash flow ratio and investment ratio. There was no statistically significant relationship between market-to-book ratio (MB), working capital ratio (WK), operating liabilities ratio (OL), and financial liabilities ratio (FL) and investment ratio.

It is suggested that managers should have concentrated on new ways on investment decisions, and try to optimize the use of firm's resources to achieve higher profitability. The traditional investors have the conservative perspective on company investment. It may not good for the potential company's growth. Investors should focus on firm's growth opportunities, and make good use of internal funds to expand.