

THE HKIS VALUATION STANDARDS

2012 Edition

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FOREWORD

Hong Kong is an international business and financial centre. The availability of professional business valuation and real property valuation service is important for the contribution to the foundation of a healthy economy and effective operation of an investment market.

Professional standards and best practices are founding stones of a well-developed valuation industry. Being one of the Valuation Organization Members of the International Valuation Standards Council, the Hong Kong Institute of Surveyors (“HKIS”) is committed to securing a set of common valuation standards which is globally recognized.

Considering drastic changes in recent years in the capital market and its general reporting standards, the HKIS General Practice Division keeps pace with the market and has undertaken a comprehensive review on its publications, namely (i) *The HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises*, (ii) *The HKIS Valuation Standards on Property*; and (iii) *Guidance Notes on Valuations of Properties for Mortgage Purpose*. It is with great pleasure that we introduce an updated publication of *The HKIS Valuation Standards 2012 Edition* (the “Standards”), a unified and concise set of valuation standards of the above three publications. The promulgation and enforcement of the Standards will further strengthen the international status of Hong Kong’s valuation profession and provide additional safeguard for users of the valuation services as well as the public as a whole.

The HKIS always strives to maintain the highest possible professional standards of our members and the quality of services that our members provide. In addition to a series of professional training, our members are governed by the Constitution and Bye-Laws, the Rules of Conduct and mandatory Continuous Professional Development. Now, the Standards becomes another set of mandatory standards in which our members have to follow in their practice. Through stringent compliance with the Standards, valuation services that are carried out by our corporate members can be assured of the best quality and standards.

Taking this opportunity, I would like to express my gratitude to members of the Valuation Standards Panel of the General Practice Division Council who have spent their valuable time to complete the above mission.

Sr Lai Yuk Fai, Stephen
President
The Hong Kong Institute of Surveyors

December 2012

Acknowledgement

The introduction of the HKIS Valuation Standards 2012 Edition (the “Standards”) reflects a milestone for the Hong Kong Institute of Surveyors (“HKIS” or “Institute”) as property markets in Hong Kong and nearby regions have become more sophisticated and public demand for professional valuation service for different types of properties is increasing. At the same time, the public is not only looking at valuation conclusions, but also paying more attention on transparency of the reporting mechanism.

With the introduction of mandatory reporting standards in business valuation in 2004 and in real property valuation in 2005, the Institute is pleased to note improvement in reporting standards of valuation in Hong Kong and members’ awareness to meet public needs. In anticipation of the changing financial reporting standards in 2012/13 and subsequent amendments of the International Valuation Standards (IVS), the Institute recognises the need for an updated version of the existing standards.

Relentless efforts have been made by the Valuation Standards Panel of the General Practice Division Council (GPD Council) to consolidate and update the existing standards into one single document to reflect changes in the IVS and the market. The Panel, at the same time, endeavours to make the Standards more user-friendly to members.

Last but not least, on behalf of the GPD Council, I would like to express my gratitude to the Panel convenor Joseph Ho and its members: Andrew Chan, Charles Chan, Chiu Kam-kuen, Russell Austin, David Faulkner, Lau Chun Kong, Simon Lynch, Lawrence Pang, Tony Wan and Samuel Young who have spent much of their valuable time to complete the above mission. All their thoughts, suggestions and contributions are greatly appreciated.

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Chairman
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December 2012

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PART A: INTRODUCTION

1. Background of the HKIS Valuation Standards (“the Standards”)

- 1.1 ‘The HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises’ was first published in 2004 (the “HKIS BVS”) to cater for the growing need of the general public for business *valuation reports* due to the prosperous development of the merger and acquisition activities in Hong Kong since late-1990s. The first issue of the HKIS BVS, which is a mandatory standard to our members, comprised 5 practice statements and 2 guidance notes.
- 1.2 ‘The HKIS Valuation Standards on Properties’ was first published in 2005 (the “HKIS PVS”) to cater for the growing need of the general public for a professional *real property valuation* service due to the development of a more sophisticated *real property* market in both Hong Kong and neighbouring regions when entering the 21st century. The first issue of the HKIS PVS, which is a mandatory standard to our members, comprised 8 valuation standards and 1 guidance note. There exists a separate Guidance Notes on Valuations of Properties for Mortgage Purpose, Second Edition, 2005, which is referred to by the HKIS PVS VS8.
- 1.3 The drastic changes over the recent years in the capital market and the financial reporting standards in Hong Kong lead to a greater demand for various types of *valuation* services on different types of *property*. In the light of such development, the Valuation Standards Panel of the HKIS General Practice Division (“GPD”) Council has decided to conduct a comprehensive review of both HKIS BVS and HKIS PVS with a view to continuing to maintain the best professional standard in preparing *valuation reports*. After review, the HKIS GPD believes that a unified and concise set of valuation standards, which is mandatory in nature, shall be issued to cope with the changes.
- 1.4 In addition, since the first edition of both standards, there have been significant developments in International Valuation Standards (“IVS”) published by the International Valuation Standards Council (“IVSC”), of which the HKIS is a Valuation Organisation Member. As the HKIS is committed to achieving the objective of securing a set of common valuation standards acceptable worldwide, the HKIS would therefore, wherever possible, adopt the standards set by the IVSC in *the Standards*.

- 1.5 With the exception of the circumstances as set out in paragraph 3 below or otherwise stated by the HKIS from time to time, *the Standards* is mandatory in nature to the HKIS members (the “*Members*” as defined in *the Standards*), and shall be applied to the *valuation reports* prepared in respect of all *properties* to be included in any documents or to be used for any other purposes as referred to in *the Standards*.
- 1.6 In preparing *the Standards*, the HKIS has taken into account opinions and advice given by the Securities and Futures Commission of Hong Kong (“SFC”), Hong Kong Institute of Certified Public Accountants and The Hong Kong Association of Banks wherever appropriate, and intends that *the Standards* shall be used by the *Members* who deal with the *valuation of properties*. When overseas *properties* owned by companies, which are incorporated or operated in Hong Kong are being valued, there may be other requirements or procedures that the *Members* shall comply with, in addition to the requirements set out in *the Standards*. The *Members* are advised to take appropriate actions to ensure that they comply with such other requirements or procedures when undertaking *valuations*.
- 1.7 The HKIS should endeavor to ensure that all information contained in *the Standards* is accurate, updated and complies with the laws, rules and regulations of Hong Kong. The HKIS reserves the right to make any changes to *the Standards* from time to time as a result of any changes in law, rules and regulations, market practices, government policies, requirements of the Hong Kong Exchanges and Clearing Limited (“HKEx”) or SFC and for any other reasons as the HKIS deems appropriate without further notice. The HKIS will publish an updated version of *the Standards* from time to time and *Members* shall obtain an updated version of *the Standards* from the HKIS website at www.hkis.org.hk. The HKIS accepts no responsibility and shall not be held responsible or liable for any losses or damages that may be suffered or incurred by any person or entity as a result of his or its relying on any information provided in *the Standards*. In the event that any *Member* has queries or doubts arising out of or concerning the interpretation, application or implementation of *the Standards*, the *Member* should write to the HKIS, in order to seek its view on such queries or doubts. The Standards shall be governed by and construed in accordance with the laws of Hong Kong. In the event that there is any inconsistency between the laws of Hong Kong and *the Standards*, the laws of Hong Kong shall prevail to the extent of such inconsistency.

- 1.8 It is emphasised that although *the Standards* sets out the minimum standards that the *Members* shall comply with in preparing *valuation reports*, it remains the responsibility of an individual *Member* to exercise his reasonable and professional judgement in preparing the *valuation reports*, including but not limited to incorporating all relevant information into the *valuation reports*.
- 1.9 If any *Member* or any other persons wish to comment or give their views on *the Standards*, they may do so by writing to the Hong Kong Institute of Surveyors at Room 1205-07, 12th Floor, Wing On Centre, No. 111 Connaught Road Central, Hong Kong or e-mail to info@hkis.org.hk.

2. Principal objectives of the Standards

- 2.1 The principal objective of *the Standards* is to provide appropriate directions or guidance to *Members* so that the *valuations/reports* prepared by them can achieve the highest standards of professionalism, integrity, clarity, reliability and impartiality, and that the *valuations/reports* are prepared in accordance with the recognised bases that are appropriate for the purposes of their preparation. *The Standards* define:
- (a) Criteria used to establish whether the *Members* are appropriately qualified to act as the *Valuers* (as defined in *the Standards*) and the steps suggested to assist them in dealing with any actual or perceived threat against their acting independently and impartially in preparing a *valuation/report*;
 - (b) Matters to be considered by the *Members* when agreeing to the terms and conditions of their engagements for preparing the *valuations/reports*;
 - (c) Basis of *valuation*, *assumptions* and material considerations that must be taken into account when preparing a *valuation/report*;
 - (d) Minimum contents required of a *report*; and
 - (e) Matters to be disclosed if the *valuations/reports* may be relied upon by third parties.

- 2.2 The *Standards* also covers the purposes for which *valuations* may be required and the related basis of *valuations*. However, it does not cover the methods of carrying out *valuations* except for situations where a greater clarity is required in a particular context.
- 2.3 Apart from the various Valuation Standards (“VS”), commentaries (where appropriate) are provided to supplement the interpretation, application and implementation of *the Standards*. The commentaries, as an essential part of *the Standards*, are mandatory requirements *Members* have to follow in their practice and shall have the same force and effect as the related VS.
- 2.4 *The Standards* also includes Appendices which are intended to provide supplementary information contained in the related VS or its commentaries, or provide background information that will assist a *Member* in understanding the context of the subject VS that it supports. As the Appendices are supporting *the Standards*, they are mandatory and shall have the same force and effect as the related VS.
- 2.5 *The Standards* also includes Guidance Notes (“GN”) to provide guidance and examples to assist *Members* in applying and implementing *the Standards*. The GN is advisory in nature and not binding on *Members*.
- 2.6 *The Standards* contains a Glossary Section at Part E to enhance and maintain the professional standard of the *Members* in preparing the *valuations/reports* in accordance with the requirements set out in *the Standards*.
- 2.7 It is recognised that there are situations and circumstances where Valuers, exercising their proper professional skill and judgement, will not necessarily follow *the Standards*. However, if the relevant VSs are not followed, and the *Members’* actions are called into question, they will be asked to justify the steps they have taken, and this may be taken into account in any disciplinary action.
- 2.8 *The Standards* is not intended to prescribe a *method of valuation* to be used. A *method of valuation* is a procedure, or series of steps, to arrive at the value subject to the specified basis of *valuation*. The *Members* shall exercise reasonable and professional judgement in using the *method of valuation* and will be held fully responsible for making such choice. Should the *Members’* choices be called into question, they will be asked to justify the decisions they took, and this may be taken into account in any disciplinary action.

3. Situations exempted from the Standards

- 3.1 Sometimes clients may request *valuations* for a purpose required by law or for any other purposes where strict application of *the Standards* is not suitable. Circumstances where strict applications of *the Standards* may not be appropriate include but are not limited to the following:

3.1.1 Advice required for use in legal proceedings

This refers to a *valuation/report* prepared for the purpose of serving as evidence in legal proceedings when the value of the *property* is in dispute or is a part of the dispute. However, a *Member* who adopts *the Standards* in preparing a valuation/report for use in legal proceedings may have a better chance to withstand cross-examination in court than a *Member* who does not adopt *the Standards*.

3.1.2 Acting as arbitrators, independent valuers, expert witnesses and mediators

When *Members* act in a capacity of arbitrators, independent valuers, expert witnesses and mediators for resolution of certain disputes such as rent review, their reports would be exempted since they may have to comply with certain statutory and/or other mandatory requirements imposed as a result of their appointment. However, when a *Member* acts as an independent valuer or expert witness, the *Member* shall, wherever practicable and with no conflict with their terms of appointment, follow the requirements set out in *the Standards* and must follow the Code of Conduct for Expert Witnesses as set out in Appendix D of The Rules of The High Court (Chapter 4A – Laws of Hong Kong) when a *Member* acts as an expert witness. The exemption sets out in this paragraph does not apply in circumstances where the value is not yet in dispute, for example, when a report is required as part of the process of settling a different matter, such as a matrimonial separation dispute.

3.1.3 In the course of negotiations

This refers to situations where advice is required for the possible outcomes of current or impending negotiations, or in connection therewith. If the negotiations relate to a matter

that may be subject to determination by a third party or court, the comments in the two preceding paragraphs 3.1.1 and 3.1.2 may be applicable.

3.1.4 Internal valuations by an Internal Valuer

This refers to *reports* prepared by an Internal Valuer, a type of *Valuers* solely for internal use by his own company, and where no part of the report, including any valuation figures, will be disclosed and relied upon by any third party. However, the *Valuer* shall still follow the general ethics set out in *the Standards* in preparing the report and the spirit of *the Standards* shall be adopted by the *Valuer* wherever practicable.

3.1.5 Investment-related work

This refers to circumstances where advice is prepared in the expectation of, or in the course of an instruction to dispose of, or acquire, an interest in a *property* on an anticipated price achievable or payable, including advice on whether a particular offer shall be made or accepted. This also refers to agency related or project evaluation work.

- 3.2 The exemptions set out in the above paragraph 3.1 shall not apply if a client specifically requires a *report* to be prepared in accordance with the requirements set out in *the Standards*. Further, even if a *report* is prepared under the condition that it shall comply with certain statutory or other mandatory requirements, *the Standards* will also apply, subject to such amendments as may be necessary to meet with those statutory or other mandatory requirements.

4. Compliance with the Standards

- 4.1 *The Standards* comprises Valuation Standards (VS), Appendices and GN.
- 4.2 *The Standards* has been approved and published by the HKIS General Council and sets out mandatory requirements on the application of the Guidance Notes in Connection with Part VI of the Bye-Laws Professional Conduct (the "*Rules*" as defined in *the Standards*) under the HKIS Bye-Law 6.1 in preparing *reports* by the *Members*.

- 4.3 *The Standards* is intended to be used and complied with by *Members* who deal with the *valuation of properties*. However, in the event that there is any conflict between *the Standards* and the standards of local practice overseas, *the Standards* should not be interpreted as imposing a lower standard than the standards adopted overseas and the *Members* shall follow the *Standards* to the extent as much as is reasonably practicable.
- 4.4 Subject to the requirements set out in paragraph 4.3 above, whenever a *Member* prepares a *report* which involves *property* located outside Hong Kong and the valuation standard(s) prevailing in the place where the *property* is located are materially different from *the Standards*, the *Member* shall inform and agree with the client in advance the applicable standards that shall apply to the *report* before proceeding to prepare the *report*.
- 4.5 Each *valuation* to which *the Standards* applies must be prepared by, or under the supervision of, an appropriately qualified Valuer, who is also a *Member*. Other than complying with the requirements set out in *the Standards*, in each and every case of preparing a report, it is the ultimate responsibility of the *Member* to apply the “Reasonable Valuer” (as defined in *the Standards*) test, and not the client or other intended users, to determine whether any *departures* from *the Standards* are reasonable and justifiable.

5. Departures from the Standards

- 5.1 No *departure* is permissible from the requirements that each *valuation/report* shall clearly and accurately comply with the minimum contents requirement of a *valuation report* as stipulated in VS 6, and shall clearly disclose any *assumptions* and limiting conditions which may affect the *valuation* and value conclusion.
- 5.2 If a *Member* is asked to perform an assignment that departs from these requirements or calls for something less than, or different from, the work normally performed in compliance with *the Standards*, the *Member* should accept and perform such services only when the following conditions are satisfied:
- 5.2.1 The *Member* determines that the instructions will not mislead the intended users;

5.2.2 The *Member* determines that the valuation is not so limited to the extent that the results are no longer reliable and credible for the intended purpose and use of the valuation; and

5.2.3 The *Member* advises the client that the instructions for the assignment which involve a departure from the Standards must be disclosed in full in the report.

5.3 Where the *Member* considers that there are special circumstances which make it inappropriate or impractical for the *valuation/report* to be made wholly in accordance with the requirements set out in *the Standards*, those circumstances must be confirmed and agreed with the client in writing and as a specific *departure* before a report is signed off by the *Member*. The adoption of a special assumption will not be regarded as a *departure* provided that the *special assumption* does not depart from or conflict with the requirements set out in *the Standards*.

5.4 A clear statement in writing of any departures and *special assumptions*, if any, together with details of, and reasons for them, and the client's agreement, must be given in the *report*.

5.5 A *Member* who makes a *departure* will be required to justify the reasons for this *departure* to the HKIS (or the disciplinary bodies of the Institute set up on its behalf or the GPD Council who has commenced investigation for such purpose) should the *departure* be called into question. If the HKIS is not satisfied with the reason(s) provided and/or the manner in which the *departure* is declared or made, it is entitled to take appropriate disciplinary actions under Rule 1 - the Standard of Conduct of the *Rules*.

6. Relationship to the financial reporting standards

6.1 The Institute considers that it is not appropriate to provide a direct link between *the Standards* and the financial reporting standards in Hong Kong. However, the Institute notes that in some instances *Members* need to follow a set of procedures as required by the financial reporting standards to arrive at a value other than a *market value* to aid the auditors in the establishment or restatement of *financial statements*, such as 'value in use' or 'purchase price allocation in a business combination'. In this context, *Members* need to disclose the set of procedures in the *report* and to follow the *Standards* whenever and wherever possible in preparing the *report*.

- 6.2 The financial reporting standards referred to in *the Standards* are all the Hong Kong Financial Reporting Standards, and Hong Kong Accounting Standards and Interpretations published by the Hong Kong Institute of Certified Public Accountants from time to time.

7. Effective date, amendments and additions

- 7.1 *The Standards* comes into effect on 1 January 2013. *The Standards* shall apply to all valuations and *reports* issued on or after that date. Where *the Standards* has been amended, the effective date of the amendments will be shown at the end of the subject Valuation Standard.
- 7.2 The content of the *Standards* is under regular review and any amendments and additions will be issued by the HKIS from time to time as required.

8. Other information

- 8.1 The definitions of 'Market Value', 'Market Rent', 'Fair Value', 'Investment Value', 'Special Value' and 'Synergistic Value' adopted in *the Standards* follow the International Valuation Standards published by the International Valuation Standards Council. The full text of the original version may be obtained from the IVSC International Headquarters, 12 Great George Street, London SW1P 3AD, UK. <http://www.ivsc.org>
- 8.2 In *the Standards*: (a) references to the masculine include, where appropriate, the feminine; and (b) words in the singular number include the plural and vice versa; and (c) headings are inserted for convenient reference only and have no effect in limiting or extending the language of the provisions to which they refer.

Published by The Hong Kong Institute of Surveyors
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PART B: VALUATION STANDARDS

Valuation Standard 1 – Ethics and Qualifications of a Valuer

Introduction

It is the objective of this Valuation Standard that *valuations* undertaken should be provided by an appropriately qualified *Valuer* who must possess sufficient knowledge of the *property* to be valued and necessary skills and experience in order to be able to undertake the *valuation* competently, independently, impartially and, shall accept full responsibility for it.

Valuation Standards

1.0 Ethics of the Valuer

1.1 ***Members*** undertaking *valuations* and acting as a qualified *Valuers* shall at all times maintain high ethical standards. In this regard, ***Members*** must follow Rule 1 - Standard of Conduct in the *Rules* as published and amended by the HKIS from time to time when the ***Members*** in the capacity of *Valuers* provide their *valuation*-related services to clients.

1.2 ***Members*** may perform *valuations* that are required to comply with reporting *standards* other than the *Standards*. In such a case, ***Members*** have a duty to comply with this VS in carrying out *valuations*.

1.3 ***Members*** must comply with the laws of the *jurisdictions* in which they practise and the laws of the *jurisdictions* in which the *valuation* is undertaken.

1.4 ***Members*** shall ensure that any staff or subordinate involved in the undertakings complies with the *Rules* with regard to ethical standards.

2.0 A qualified Valuer shall be a person who:

- is a Corporate Member from the General Practice Division of the HKIS;
- has sufficient knowledge and experience in valuing similar *properties* in a relevant location or industry; and
- complies with relevant regulations governing the right to undertake the *valuation*.

In conducting *real property valuations* for incorporation or reference in prospectuses and circulars and *valuations* in connection with takeovers or mergers and acquisitions in Hong Kong, a qualified Valuer must be on the HKIS List of the Property Valuers for such purposes as published by the HKIS from time to time.

Different types of *Valuers* are defined in Appendix VS1.1.

Commentaries:

- (1) In conducting *valuations*, a *Valuer* must ensure that he possesses sufficient skills, knowledge and experience necessary to undertake, prepare and complete the *report* competently, independently, impartially and shall take full responsibility for the *report*. On the other hand, if the *Valuer* lacks the requisite knowledge and experience in preparing a *valuation/report*, he must disclose this limitation to his client and if he decides to undertake to prepare the *valuation/report*, he must take all steps as necessary and appropriate to complete the valuation/report professionally. These steps include, but not limited to, obtaining outside assistance from a competent and professional person(s) who have the necessary knowledge, expertise and experience. This external assistance can be an industry consultant who provides industry advice to the *Valuer* or an *Additional Valuer* (as defined in the Standards) from the relevant *valuation* profession to support the work of the *Valuer*, depending on the actual requirement. The name and qualification statement of the external assistant must be included in the *report*.
- (2) The qualification requirements on the level of expertise to undertake the *report* may be met in aggregate by more than one *Valuer/consultant* within the same *firm*/the engagement team so that the requirements of this Valuation Standard can be met.
- (3) The mandatory continuing professional development as required by the HKIS from time to time must be observed by the *Valuers*.

3.0 Independence and impartiality

- 3.1 In making any disclosures regarding conflict of interests, *Members* must also adhere to client confidentiality.
- 3.2 A *Member* is required, in valuing any *property* or performing any *valuation*-related assignment in the capacity of a *Valuer*, to exercise independent judgment and not to be subject to improper direction or influence from any other persons. Also, a *Member*,

together with his associates, must consider not to have any conflict of interest with a prospective client or the subject of the prospective *valuation*-related assignment at the time when the prospective engagement is proposed until the engagement is completed.

3.3 Rule 1.3 of the *Rules* requires each *Member* of the HKIS to discharge his duties to his client with integrity and in accordance with the highest standard of business ethics.

3.4 In performing *valuation*-related assignments for listing applicants or issuers in any stock exchange market, *Valuers* must observe the independence requirements as imposed by the relevant regulators from time to time.

4.0 Effective date

This Valuation Standard becomes effective on 1 January 2013.

Valuation Standard 2 – Engagement

Introduction

It is the objective of this Valuation Standard that a *Member* shall always agree with or confirm any instructions with the client by signing an *engagement letter* before he is engaged as a qualified *Valuer*. This will benefit both the *Member* and the client by giving both parties a better understanding of the agreed scope of work and the potential risk of the engagement, if any, before the engagement. The *engagement letter* should be issued to and signed by the client, whenever possible, prior to the commencement of the engagement, or at the latest, before any *report* is issued.

Valuation Standard

1.0 *Engagement Letter*

1.1 **An *engagement letter* is a formal contract between a *Valuer* and his client. Prior to entering into the *engagement letter* with the client, a *Valuer* shall follow the *Rules* to clear any engagement risk that comes to his attention such as a conflict of interests or disclosure of any previous material involvement in the *property* to the client. The *Valuer* shall agree with or confirm the instructions with the client in writing before issuing the *report* and in doing so, he shall, where possible, define the following:**

- (a) the identification of the client;
- (b) the purpose of the *valuation*;
- (c) the subject of the *valuation*;
- (d) the interest to be valued;
- (e) the *basis of valuation*;
- (f) the *valuation* date;
- (g) the approach to value;
- (h) the currency in which valuation is to be expressed;
- (i) any *assumptions* (guidelines on which are contained in Appendix VS 2.1), *special assumptions*, reservations, any special instructions or *departures*;
- (j) the extent of the *Valuer's inspection* and investigation;
- (k) the nature and source of information to be relied upon by the *Valuer* and the extent of the *Valuer's* verification of the information;
- (l) any consent granted to, or restrictions imposed on, the publication of the *report* or intended use of the *report* or any information in the *report*;

- (m) any limits or exclusion of liability to parties other than the client;
- (n) the basis on which the fee will be calculated;
- (o) the financial reporting standard on which the valuation is required or based upon, if any;
- (p) the payment term and the arrangement of abortive fee, if any;
- (q) other standardised terms and conditions; and
- (s) if required, a statement of the status of the *Valuer*.

2.0 *Valuation* subject to *special assumptions*

- 2.1 *Special assumptions* are hypotheses – either supposed or unconfirmed – which, if not true, can substantially alter a *Valuer's* opinion, advice or *valuation* conclusion.
- 2.2 Where *special assumptions* are necessary in order to adequately provide a client with the *valuation* required, these must be agreed and confirmed in writing with the client before any *report* is issued. Save for those that are imposed or required by statutes or regulations, *special assumptions* may only be made if they can reasonably be regarded as realistic, relevant and valid, in connection with the particular circumstances of the *valuation*.
- 2.3 If a client requests a *valuation* to be carried out on the basis of adopting a *special assumption* (other than those that are imposed or required by statutes or regulations) that a *Member* considers unreasonable or unrealistic, the instruction should be declined.

3.0 *Valuation* to reflect marketing constraints

- 3.1 Both the client and the *Valuer* shall agree to the actual or anticipated marketing constraint as set out in the *engagement letter*.
- 3.2 The term 'forced sale value' must not be used as it is not a recognised *basis of valuation*; rather 'forced sale' is a description of the situation under which the transfer takes place.
- 3.3 The Institute recognises the 'Value for Sale under Repossession' is a procedural *valuation* to reflect market constraints but not a basis of *valuation*.

- 4.0 *Valuation* to be carried out with restricted information
- 4.1 Prior to the issue of a *report*, a *Valuer* shall confirm in writing with the client the basis of restricted information, its nature and its possible implications upon the *valuation report*.
- 5.0 *Valuation engagement* to conduct a critical review of another *Valuer's valuation*
- 5.1 Unless a *Valuer* is in full control of all the particulars and information on which another *Valuer* based his valuation on, a *Valuer* shall not make comment on a *valuation* prepared by that *Valuer* for the purpose of disclosure or publication.
- 5.2 A *Valuer* may, however, in the following circumstances, provide a *valuation* review on the basis of agreed-upon procedures of a valuation prepared by another *Valuer* that is intended for disclosure or publication purposes:
- (a) where a *valuation* review is required to be carried out by the management of the client or an Internal *Valuer*, as the client requires support or comments from an External *Valuer* on the *valuation*, which has been prepared;
 - (b) where a *Valuer* is asked to co-ordinate the work of other *Valuers*, and to express support for others' approaches and/or level of value they have adopted; or
 - (C) where a *Valuer* is instructed by the client to produce a separate independent valuation which may be used by the client to publicly challenge the first *Valuer's valuation*.
- 5.3 Subject to the following requirements, a *Valuer* may, on the instruction of the client, conduct the *valuation* review on the basis of agreed-upon procedures for the client's internal reference:-
- (a) The client in the *engagement letter* agrees that the nature and scope of the procedures are adequate for his purpose.
 - (b) The *Valuer* in the *engagement letter* and his valuation review *report* discloses the limitation he has in conducting his *valuation* review.

- (c) The *Valuer* in his *valuation review report* states that should additional documents and facts be available to him at a later date, he reserves the right to amend his findings and conclusions in his *valuation review report*.
 - (d) The *valuation review report* shall not be disclosed to a third party or published to the public.
- 5.4 This Valuation Standard does not apply to reports prepared for any legal proceedings where a Valuer may be required to comment on the report prepared by another Valuer representing or acting on behalf of the opposing party in legal proceedings.
- 5.5 This Valuation Standard does not apply to situations where the GPD Council commences an investigation to determine whether a *Valuer* is a *Reasonable Valuer* under the Standards.
- 5.6 This Valuation Standard also does not apply to situations where complaints from the public has been received by the HKIS or come to its attention, or the HKIS has, for some reasons, commenced a disciplinary investigation to determine whether a *valuation/report* prepared by a *Member* complies with the requirements set out in *the Standards*.
- 6.0 *Valuation* engagement for financial and accounts reporting and *valuation* to be included or disclosed in the *financial statements*
 - 6.1 A *Valuer* is required to reach an agreement with the client in the *engagement letter* on the working relationship with the client's auditor. This may include such details as the way and the extent of releasing working papers and data to the client's auditor, to avoid unnecessary disputes with the client and the client's auditor thereafter and any potential litigation in the future.
 - 6.2 It is a good practice to have a meeting with the client and their auditor to understand and to agree on the scope of work prior to proposing and entering an engagement with the client.
- 7.0 *Valuation* which may be passed to a third party
 - 7.1 Unless agreed in the *engagement letter*, no part of the *report or valuations* shall be passed by a client to a third party without the *Valuer's* prior written consent. *Valuers* should ensure that a non-

disclosure clause is included within their Terms of Engagement and within the *report*.

- 7.2 *Valuers* are reminded to understand throughout the engagement the purpose of the *valuation*, and know who may use their *valuations or reports*. Such matters should be agreed with the client in the *engagement letter* prior to signing-off the *reports*. Should the *valuation* be required to pass to a third party other than the client, a hold harmless clause should be agreed and included in the *engagement letter*.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

Valuation Standard 3 – Bases of Valuation

Introduction

It is the objective of this Valuation Standard to provide a common definition of various bases of Valuation - *market value*, market rent and bases other than *market value* for *Members* to follow in reporting their *valuations*. This Valuation Standard also provides explanations on the general criteria relating to the definitions and their application in the *valuation of property*.

Valuation Standard

1.0 Use of appropriate *basis of valuation*

- 1.1 *Valuers* must determine and adopt the most appropriate *basis of valuation* for every *valuation* and to prepare the *valuation report*. For most *valuations*, it will be appropriate to use one of the bases recognised in the IVS and identified in this Valuation Standard.
- 1.2 The Institute recognises two bases of *valuation to property*, namely *market value* basis and bases other than *market value* as published in the IVS from time to time. The Institute also recognises market rent as a basis of valuation in valuing the *real property* interest.
- 1.3 Should a *Valuer* identify that no appropriate *basis of valuation* as recognised by the Institute is appropriate in his particular *valuation*, he should clearly define the *basis of valuation* adopted and explain in the *report* with reasons for the *departure* of this Valuation Standard. Should his *valuation* be called into question, he will be asked to justify the reasons and steps taken, and this may be taken into account in any disciplinary action, if any, by the Institute.

2.0 Market value *basis of valuation*

- 2.1 *Valuations* to be made based on *market value* shall adopt the definition and conceptual framework as settled by the IVSC in the IVS.

The term, *Market Value*, is defined by the IVS and followed by the *Standards* as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer

and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Commentaries:

- (1) The basis of *market value* is an internationally recognised definition. It does not depend on an actual transaction taking place on the *valuation date*; rather, it is an estimate of a price that would reasonably be expected to realise in a hypothetical contract of sale at the valuation date under conditions of the *market value* definition. *Valuers* shall ensure that in all cases the *basis of valuation* is set out clearly in both the *engagement letter* and the *valuation report*.
- (2) The concept of *market value* presumes that a price is negotiated in an open and competitive market. The market for a *property* can be an international market or a local market. The market can consist of numerous buyers and sellers, or can be one characterised by a limited number of participants.
- (3) *Market valuations* are generally based on information from the market. The *valuation* process requires a *Valuer* to conduct adequate and relevant research, to perform competent analyses, and to draw informed and supportable judgements. In this process, *Valuers* do not accept data without questions but should consider pertinent market evidence, trends, comparable transactions, and other information. Where market data is limited, or essentially non-existent, the *Valuer* must make proper disclosure of the situation and must state whether the estimate is in any way limited by the inadequacy of data.
- (4) The definition of *market value* must be stated in the *report* or *valuation*. The *Valuer* is required to include a statement in his *report*, outlining what is being valued and *assumptions* (including *special assumptions*, if any) made in the *valuation* to make the *valuation* become a *market value*.

- (5) As changing conditions are characteristics of markets, *Valuers* must consider whether the available data reflects and meets the criteria for *market value*. However, if the interest being valued is incapable of being disposed of in the market, *market value* may not be an appropriate basis to use.
- (a) Periods of rapid changes in market condition are typified by rapidly changing prices, a condition commonly referred to as disequilibrium. A period of disequilibrium may continue over a period of years and can constitute the current and expected future market condition. In other circumstances, rapid economic change may give rise to erratic market data. If some sales are out of line with the market, the *Valuer* will generally give them less weight. It may still be possible for the *Valuer* to judge from available data where the realistic level of the market is. Individual transaction prices may not be evidence of *market value*, but analysis of such market data should be taken into consideration in the *valuation* process.
- (b) In poor or falling markets there may or may not be a large number of “willing sellers.” Some, but not necessarily all, transactions may involve elements of financial (or other) duress or conditions that reduce or eliminate the practical willingness of certain owners to sell. *Valuers* must take into account, as far as possible, relevant factors in such market conditions and attach such weight to individual transactions that they believe proper to reflect the market. Liquidators and receivers are normally under a duty to obtain the best price in *property* disposals. Sales, however, may take place without proper marketing or a reasonable marketing period. *Valuers* must judge such transactions to determine the degree to which they meet the requirements of the *market value* definition and the weight that such data should be given.
- (6) When assessing the *market value* of a property, any transaction costs or encumbrances such as mortgage, debenture or other charges against it should be disregarded.
- (7) A client may wish to include the ‘hope value’ of a *property* in its *market value* and the ‘hope value’ refers to the situation that the market has an expectation that the circumstances affecting the

property may have a positive change in the future. Examples of the 'hope value' include:

- (a) The prospect of having re-development opportunity where in fact there is no current permission of re-development granted for that *real property*.
- (b) The realisation of 'Marriage Value' (also called synergistic value) arising from merger with another *real property* or interests within the same *real property*.
- (c) The prospect of positive cash flows of a business enterprise which though at present records a negative equity in the balance sheet.

However, the amount of hope value must be limited to the extent that it would be reflected in offers made by prospective purchasers in a general market under a rational environment which means with market-evidence. Should the *Valuer* be instructed to *report* a marriage value which is a basis other than *market value*, for example, he is required to distinguish clearly from *market value*.

- (8) *Valuers* in preparing a *market value basis valuation* must always base on the highest and best use of a *real property* as required under the conceptual framework of the IVS. *Valuers* should not mix up the concept of 'highest and best use' with 'hope value'. 'Hope value' not only includes a particular synergy in a purchase so long as it is reflected in the open market, but also the prospect of obtaining approval or lease modification as the case may be. The proposed use from which the 'hope value' is derived conforms with the 'highest and best use' in the sense that the proposed use is legally allowable when there is a reasonable prospect (as reflected in the market of at least 50% chance) that the regulation, zoning, deed restriction, etc. can be changed to permit the proposed use.
- (9) There are certain types of *real properties* that have been designed to be sold in an open market as fully operational business units for a strictly limited use and at prices based upon trading potential. Examples of these are hotels, bars, restaurants, movie theatres or cinemas, gasoline or petrol stations. The prices of these *real properties* will include trade

fixtures, fittings, furniture, furnishings and equipment. A *Valuer* will need to collect additional information apart from *market value*, clarifying whether the *valuation* assumes that the *real property* is to be sold as a fully-equipped *real property*, part of a going concern trading entity, or on some other *assumptions*.

3.0 Bases other than *market value*

- 3.1 The Institute recognises the following non-*market value* bases in this Valuation Standard; they are: fair value, *investment value*, special value, synergistic value or value for sale under repossession. Unless otherwise stated in *the Standards*, *valuations* to be made based on such bases shall adopt the definition and conceptual framework as settled by the IVSC in the IVS from time to time.
- 3.2 *Valuers* in reporting *valuations* based on non-*market value* bases shall clearly state the *assumptions* (including *special assumptions*, if any) being used and distinguish the used *assumptions* from those normally used in reporting *valuations* based on *market value* basis.
- 3.3 The term “Fair Value” is defined by the IVS and followed by this Valuation Standard as “the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties”. However, this definition is different from the Fair Value as defined under HKFRS for financial reporting – see VS 9.

Commentary:

For purposes other than financial reporting, fair value can be distinguished from *market value*. The reason is - unlike *market value*, fair value requires the assessment of the price that is fair between two willing parties for the transfer of an asset under specific consideration(s) and the asset is not necessarily exposed in the open market. As long as the willing parties agree on the price on fair terms, it is a fair value.

- 3.4 The term “*Investment Value*” is defined by the IVS and followed by this Valuation Standard as “the value of an asset to the owner or a prospectus owner for individual investment or operational objectives”. When investment value is reported, it should always be clearly distinguished from *market value*.

Commentaries:

- (1) *Investment value*, or as some *Valuers* refer to as ‘worth’, is recognised as a non-*market value* and only reflects the benefits that an owner of an asset enjoys from the ownership of the asset i.e. benefits received by holding the asset. This value is specific to that owner, not the others and does not necessarily involve a hypothetical exchange. If the *Valuer* is required to provide an assessment of investment value or worth, he should make a clear statement that the figure is not a *market value*, but an investment value or worth.
- (2) In some instances, the owner of the asset may instruct the *Valuer* to use a target rate of return to test or analyse the financial performance of the asset to the owner, and that target rate of return is not market-derived. Such instructions should be disclosed by the *Valuer* in the *valuation report* and a non-*market value* statement should be reported in the report.

3.5 The term “Special Value” is defined by the IVS and followed by this Valuation Standard as “an amount that reflects particular attributes of an asset that are only of value to a special purchaser”.

Commentaries:

- (1) *Market value* requires any special interest to be disregarded. However, in some instances, an asset, due to its inherent characteristics such as physical, geographic, economic or legal, is only able to attract a particular buyer having a special interest in the asset (or *property*), than other buyers in the market. The agreed price, which is not market-derived for such special interest, should have been disregarded in the arm’s length negotiation.
- (2) When a special value is reported, it should always be clearly distinguished from market value. Should a *special assumption* be adopted in arriving at the *special value*, the *Valuer* is required to comply with the requirement set out in the *Standards*.

3.6 The term “Synergistic Value” is defined by the IVS and followed by this Valuation Standard as “an additional element of value created by the combination of two or more interests where the combined value is more than the sum of separate values”. When synergistic

value is reported, it should always be clearly distinguished from *market value*.

- 3.7 The Depreciated Replacement Cost (“DRC”) is no longer recognised as a basis of value by the Institute; rather, it is recognised as an application (method) of the Cost Approach in the absence of sufficient market data to arrive at the *market value* of *real property* and plant and equipment by means of market-based evidence.

Commentary:

- (1) The financial reporting standards, for instance, HKAS 16, recognize the DRC method as an alternative to be used in estimating the fair value of *real property* and plant and equipment in the absence of market-based evidence to produce a reliable *valuation*.
- (2) The application of the DRC method in *real property valuations* is based on an estimate of the *market value* of the land in its existing use, plus the current cost of replacement of the improvements less allowance for physical deterioration and all relevant forms of obsolescence and optimisation.
- (3) When the client instructs the *Valuer* to estimate the *market value* of the land on alternative use basis which is different from the existing use of the land, the *Valuer* should take reasonable steps to verify the rationale and soundness of the instruction. Where the alternative use is not an *assumption* but a *special assumption*, VS 2.2 applies.
- (4) When using the DRC method, the *Valuer* should include a statement in the *report* to justify his use of the DRC method and the efforts he made in considering the DRC method as the most appropriate approach to value.
- (5) Should the subject *real property* comprise various buildings and structures of a complex or development, the *Valuer* should include a statement in the *report* that the reported *market value* only applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

- (6) The DRC method when used in the private sector must always be expressed by the *Valuer* as subject to adequate potential profitability of the business (or to service potential of the entity from the use of assets as a whole) paying due regard to the total assets employed.
- (7) The DRC method when used in the public sector must always be expressed by the *Valuer* as subject to the prospect and viability of the continued operation and use instead of subject to adequate potential profitability of the business (or to service potential of the entity from the use of assets as a whole).

3.8 Value for sale under repossession is recognised by the Institute as a measurement basis to reflect a specified market constraint - regaining possession of the collateral securing a loan that is in default.

Commentaries:

- (1) There were cases that the term ‘forced sale value’ was used in the *valuation of real property* under a market constrained situation. However, ‘forced sale’ is a description of the situation under which the transfer takes place and is not a *basis of valuation*.
- (2) Value for sale under repossession is a procedural *valuation*; to provide an estimate of the value for sale under repossession, the *Valuer* should:
 - (a) estimate the *market value* of the *real property*;
 - (b) discuss with the lender or receiver on the specific risk or stigma (such as additional costs and time to obtain vacant possession, and the need for completion at short time frame) that might have impact on the *market value* whilst taking into account the unique quality of the *real property* and the existence of any specific demand; and
 - (c) analyse and apply adjustment(s) to the *market value* of the *real property* by taking into account the negative impacts and to arrive at the value for sale under repossession independently.

- (3) When value for sale under repossession is reported, it should always be clearly distinguished from *market value*. Should a *special assumption* be adopted in arriving at the value for sale under repossession, the *Valuer* is required to comply with the requirement set out in *the Standards*.

4.0 Market rent

- 4.1 **Valuations of *real property* interests to be made based on market rent shall adopt the definition and conceptual framework as settled by the IVSC in the IVS from time to time.**

The term, ***Market Rent***, is defined by the IVS and followed by the ***Standards*** as “the estimated amount for which a property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion”.

Whenever market rent is provided, the ‘appropriate lease terms’ which it reflects should also be clearly stated.

Commentaries:

- (1) The definition of market rent is similar to the definition of *market value* and it includes an additional *assumption* that a *real property* is being leased on ‘appropriate lease terms’. Market rent will vary significantly according to the terms of the assumed lease contract. The appropriate lease terms will normally reflect practice between market participants in the market at the *valuation date* in which the *real property* is situated, although for certain purposes unusual terms may need to be stipulated. Matters such as the duration of the lease, the frequency of rent reviews, and the responsibilities of the parties for maintenance and outgoings, will all have an impact on market rent. *Valuers* must therefore give careful attention to set out clearly the principal lease terms that are assumed when evaluating/ assessing market rent.
- (2) *Members* who are instructed by clients to prepare *valuations/reports* in a capacity as *Valuers* in accordance with the market rent as defined in the subject lease conditions are exempted to follow this basis of valuation. In fact, *Valuers*, who are engaged by the clients to prepare *valuations/reports* for arbitration,

rent review and mediation purposes are exempted from the Standards.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

Valuation Standard 4 – Inspections and Investigations

Introduction

It is the objective of this Valuation Standard to provide the requirements for *inspections* and investigations for *Valuers* to follow in conducting their *valuation* of *real property* or other types of assets. Inspections and investigations for business *valuation* will be discussed in greater detail in Valuation Standard 7 – Business Interests and Business Enterprises Valuations in *the Standards*. This Valuation Standard also provides explanation of the general criteria relating to *inspection* such as the purpose of an *inspection*, minimum level of *inspection* and disclosure requirement in a *report*.

Valuation Standard

1.0 **Valuers must carry out *inspections* and *investigations* into the *property* to the extent necessary to produce a valuation *report* which is professionally adequate for its purpose.**

Commentaries:

- (1) Unless otherwise agreed with the client, the term '*inspection*' assumes that the *Valuer* will inspect the *property* both internally and externally, wherever access is possible.
- (2) Save for the exempted conditions stated in VS 4.2, the *inspection* of the *property* is mandatory unless the *Valuer* can provide a reasonable justification for not carrying out an *inspection* through making a proper disclosure or *departure* from *the Standards* and any special *assumption* as appropriate. The *Valuer* should state the extent and date of the inspection in his *report*.
- (3) The primary reason for *inspection* of a *property* is to enable the *Valuer* to have a better understanding of the *property* and its characteristics that are relevant to its value. The *Valuer* should agree with the client on the extent and depth of the *inspection* and investigation and identify the minimum level of *inspection* and investigation procedures to be conducted prior to commencing the engagement, and document such agreed scope of *inspection* and investigation in his *report*.
- (4) For the avoidance of doubt, the *inspection* required in the *Standards* is not the equivalent of an *inspection* to be conducted by a professional (for instance, Building Surveyor, Structural Engineer or Electrical Engineer) other than a General Practice Surveyor to the subject *property*. In other

words, the *inspection* required under this Standard is not a building survey or the like.

- (5) The *inspection* of comparables is also expected under normal circumstances where and when possible.

2.0 Under the following situations, a *Valuer's* responsibility to carry out *inspection* will be exempted, but the *Valuer* is required to investigate the *property*, where and when possible and on the appropriate basis, and to disclose the facts, limitations and their possible impacts on his valuation in his *report*. The exempted situations are :

- (1) The local laws and regulations where the *property* is located forbid foreigners or a particular group of visitors from visiting or inspecting the *property*.
- (2) The *property* is physically inaccessible.
- (3) The *Valuer's* health and safety are at risk should *inspection* to the *property* proceed.
- (4) Potential unsafe or hazardous activity in the *property* is noted before or in the process of *inspection* that goes beyond the *Valuer's* control and may cause risk to the health and safety of the *Valuer*.

Commentaries:

- (1) There may be cases where, for example, the subject *property* is located at a restricted district where the local laws and regulations prohibit foreigners to enter the district OR the subject *property* is classified as part of a protected asset and is only open to a particular group of visitors (for instance scientists) OR the subject *property* is only open to people having a particular knowledge or licence (for instance a "Green Card" holder, a person who has been trained in basic safety and hold valid certificates under the Factories and Industrial Undertakings Ordinance (Chapter 59 – Laws of Hong Kong) in Hong Kong) which make the inspection difficult, if not impossible, to be conducted within a given time frame. Under such circumstances, the *Valuer's* compliance of the *inspection* duty is exempted. However, the *Valuer* is required to disclose the fact, limitation, the client's instruction and possible impact on his *valuation* in his *report*.

- (2) There may be cases where, for example, physical barriers like road blockage or no safe access exist which causes the *Valuer* to be unable to access the subject *property* OR the *property* covers a vast area, say a forest or a hilly area, and it is impossible to access all parts of the *property* except a small portion OR simply the *Valuer* is denied access to the subject *property* for whatever reason(s), which make *inspection* difficult, if not impossible, to be conducted within a given time frame. Under such circumstances, the *Valuer's* compliance of the inspection duty is exempted. However, the *Valuer* is required to disclose the fact, limitation, the client's instruction and possible impact on his *valuation* in his *report*.
- (3) In accordance with the Occupation Safety and Health Ordinance (Chapter 509 – Laws of Hong Kong) in Hong Kong, employers are required to ensure safety and health at work of employees; and an employee while at work is required to take reasonable care of the safety and health of himself and of other persons (including the employee) who may be affected by his act or omissions at work. In other words, *Valuers* are required to protect their own safety; anyone who uses their services; anyone who works for them; and anyone who may be affected by their work. To observe the laws in Hong Kong where the *Valuer* is practising, should the *Valuer's* health and safety be at risk where for example, bad weather like rain, snow or flooding happens in the area at which the subject *property* is located OR the *Valuer*, in order to inspect the property, is required to stay at a place where it is 2 meters above the ground without a safety platform or approved safety belt or equipment to protect himself, compliance of the *inspection* duty to the subject property is exempted. However, the *Valuer* is required to disclose the facts, limitations, the client's instructions and possible impact on his valuation in his *report*.
- (4) There may be cases where, for example, in the course of *inspections*, there are overhead electrical cables OR fork lift vehicles and cranes operating OR unstable ground around the *property* OR unattended dogs in the *property*, which go beyond the *Valuer's* control or could not be controlled by the people around the *Valuer* and may create danger to him or people around. Under such circumstances, the *Valuer's* compliance of the *inspection* duty to the subject property is exempted. However, the *Valuer* is required to disclose the facts, limitations, the client's instructions and possible impacts on his *valuation* in his *report*.

3.0 Should the client, for this own reason, or for the reasons above be unable to arrange an *inspection* or if he instructs the *Valuer* not to inspect the

property but to conduct a desk-top valuation or perform an external inspection only (i.e. a restricted *valuation*), the Valuer is required to satisfy himself that he has sufficient information to perform the valuation and to disclose this fact and state the *assumptions* being agreed with the client, the limitations, the possible impact on his *valuation* in his *report*.

- 4.0 A Valuer may use the findings of his *inspection*, the official records of the *property* and other records from reliable sources to gather information of the *property* to enable him to analyse the characteristics of the *property*. While he owes a duty of care to his client to verify any information provided or obtained, the Valuer is required to disclose the limitations on his duty and the possible impact on his *valuation* in his *report*.
- 5.0 In performing the duty of investigation of the characteristics and the information of the *property*, a Valuer may make an *assumption* upon a client's request. However, if a hypothetical buyer does not make the same *assumption* as previously suggested by the client, then the Valuer may need to treat this *assumption* as a *special assumption* and should draw this to the attention of the client before the *report* is signed off by the Valuer.
- 6.0 Valuers should use their best efforts to carry out investigations on the *assumptions* to be made in the *reports*. However, if investigations are proved to be not practical, Valuers can assume that certain information is correct or accurate without the need of carrying out further investigation provided that they disclose the limitation they have (as the case may be) in the *reports*.
- 7.0 A *revaluation* without *re-inspection* of the *property* previously valued by the Valuer or his *firm* must not be undertaken unless the Valuer is satisfied, with evidence provided from the client, that there have been no material changes to the physical attributes of the *property* or the nature of interest being valued or the nature of its location, since the last *inspection*. However, the Valuer is required to record the provided evidence and this *assumption* clearly in the *engagement letter* and his *report*.

Commentaries:

- (1) Clients may need the *valuations* of the *properties* to be updated on a regular basis. *Re-inspection* on every occasion may be unnecessary if the Valuer or his *firm* has previously inspected the *property*, and the client has confirmed that there have been no material changes to the

physical attributes of the *property* or the use of the *property*. However, the *Valuer* shall record the client's confirmation or provided evidence together with this *assumption* clearly in the *engagement letter*.

- (2) The *Valuer* may decide that it is inappropriate to undertake a revaluation without *re-inspection* because of the occurrence of material changes, the passage of time or other reasons. Nevertheless, the *Valuer* may still accept an instruction that no *re-inspection* will be carried out provided that the client can confirm in writing, prior to the issue of the *report*, that the *report* will be used solely for internal management purposes and will not be accessed by or made available to any third parties. The *Valuer shall* set out unequivocally in the *report* that it is issued on the condition that the *report* should not be published except for the client's internal management reference purposes.

8.0 Where it is agreed that *inspections* and investigations may be limited, it is likely that the *valuation* will be on the basis of restricted information and VS2.4 will apply.

9.0 In Hong Kong, under the *Listing Laws*, *Valuers* may be required to *report* the basic information of *real properties* which are held under operating leases and no commercial values have been assigned in documents for public inspection purposes. *Valuers* are required to observe the requirements as imposed by the *Listing Laws* from time to time, and to agree with the clients on whether *inspections* of the *real properties* are required or not. *Valuers* are required to disclose the arrangement being made in the engagement letter and the *report*.

10.0 Should the *Valuer*, at the time of his inspection, suspect that there may have a possible or potential alternations or additions or improvements made in the *real property* being inspected, he has a duty to disclose the same in his *report* and to advise the client to consult a professional building surveyor or a *firm* of professional building surveyors in Hong Kong in respect of these unauthorized building works. And that, the *Valuer* should make a highlight in his *report* on the extent of such unauthorized building works may affect his reported value.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

Valuation Standard 5 – Verification of Information

Introduction

It is the objective of this Valuation Standard to provide standards on verification of information for the *Valuers* to follow in conducting their *valuation of properties*. Verification of information for business *valuation* will be discussed in greater details in Valuation Standard 7 – Business Interests and Business Enterprises Valuations in the *Standards*.

Valuation Standard

- 1.0 The *Valuer* must take reasonable steps to verify all data, information and sources of information being relied upon in the preparation of the *valuation*, and, if not already agreed, clarify with the client any necessary *assumptions* that will be relied upon. The *Valuer* is required to disclose the steps taken or limitations experienced in his *report*. Should the limitations have an impact on his *valuation*, the *Valuer* is required to disclose such an impact in his *report*.**

Commentaries:

- (1) It is a generally accepted practice for a *Valuer* to state clearly the information that he relies upon and, where appropriate, its source and the date of obtaining such information, and whether and what sort of information has been verified. There may be cases that it would be beyond the scope of the *Valuer's* services to perform a complete verification of secondary or tertiary data sources. However, the *Valuer* is required, with his best effort, to verify such data sources as is customary in the markets and locale of the *valuation* to an extent as a *Reasonable Valuer* will perform.
- (2) *Valuers* must make clear in their *reports* any information which must be verified by the legal advisers of the client or other interested parties, before the *valuation* can be relied upon or published.

- 2.0 A *Valuer* must not rely upon critical information supplied by his client, or any other party, without appropriate qualification or confirmation from an independent source unless the nature and extent of such reliance is specified as a limiting condition.**

Commentary:

It is a generally accepted practice that the *Valuer* may rely on information supplied by the client or other representatives/ experts to prepare the *valuation / report* with an assumption (if reasonable in the opinion of the *Valuer*) that such information is accurate and complete. However, this practice does not absolve the *Valuer* from the responsibility for taking reasonable steps to verify the accuracy and completeness of the information relied upon in the preparation of the *valuation* and to clarify with the client any necessary *assumptions* that will be relied upon by the *Valuer*, if such *assumptions* have not been already agreed to by the client. Should the *Valuer* have no option but to follow the information provided where, for example, the *Valuer* has no such expertise, say legal or engineering, or he is not licenced to do so where the *property* is situated, he should disclose the limitation in his *report*.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

Valuation Standard 6 – Valuation Reports

Introduction

It is the objective of this Valuation Standard to provide standards on reporting of *valuations* for the *Valuers* to follow in communicating such analysis and opinion in a manner that is not misleading to their clients and readers.

Valuation Standard

1.0 Each *valuation* report must cover all the matters agreed between a *Valuer* and his client in the *engagement letter*. It must clearly and accurately set out the *valuation* in a manner that is not misleading to the client.

Commentaries:

- (1) There is no major difference on the minimum amount of matters to be included in a *report* prepared for a publicly traded company or a privately owned company save and except that some special requirements may be imposed by SFC, HKEx, the HKIS, the client or the client's professional adviser(s) from time to time. *Members*, who are engaged to prepare a *report* as *Valuer*, should be aware of such special requirements when preparing a *report*.
- (2) In producing *reports* to their clients, *Valuers* are discouraged from using the terms, either 'formal' or 'informal', as such terms may create misunderstandings of undefined *assumptions* applicable in either cases.
- (3) In some instances, the client may request the *Valuer* to prepare a *report* in a language other than English. Due care must be taken to ensure that the requirements set out in *the Standards* have been fully complied with and reflected in such a *report* and that the approved text of *the Standards* is correctly interpreted.

2.0 Subject to VS 6.1 above, the format and extent of the detail of the *report* are a matter of the *Valuer's* discretion except where the report is to be provided on a form supplied by the client. The presentation of the *valuation report* should take into account the need for any special format and should contain the following minimum required information:

- (a) the identification of the client;
- (b) the purpose of the *valuation*;
- (c) the subject of the *valuation*;

- (d) the interest to be valued;
- (e) the basis or bases of *valuation*;
- (f) the *valuation* date;
- (g) the status of the *Valuer* and where appropriate and applicable, the disclosure of any material involvement, previously or current;
- (h) the currency in which *valuation* is to be expressed;
- (i) any *assumptions*, *special assumptions*, reservations, any special instructions or *departures*;
- (j) the extent of the *Valuer's inspections* and investigations;
- (k) the nature and source of information to be relied on by the *Valuer*;
- (l) any consent to, or restrictions on, publication;
- (m) any limits or exclusion of liability to parties other than the client;
- (n) the confirmation that the *valuation* complies with the requirements set out in the *Standards*;
- (o) a statement or description of the *valuation* approach;
- (p) the analytical process and empirical data used to arrive at the value conclusion;
- (q) a statement of the *Valuer's* competency in performing the *valuation*;
- (r) the opinions of value in figures and words;
- (s) the name and the signature of the *Valuer*; and
- (t) the date of the *report*.

Commentaries:

- (1) The reporting requirements addressed in *the Standards* should apply to all types of *valuation reports*. However, the type, content and length of a *valuation report* will vary due to a number of factors, such as the requests of the intended user, the agreed scope of work, the legal requirements, the type of the property and the nature and complexity of the assignment.
- (2) Should the *Valuer* prepare his *report* on a form supplied by the client or in accordance with the client's reporting requirements, which differ from the minimum required contents as stipulated in this Valuation Standard, the *Valuer* shall disclose the fact and make a statement that such designated form or requirements would not affect his *valuation* in the *engagement* letter and in the *report*.
- (3) There is an argument whether a *valuation* certificate is a *valuation report* or not because the *valuation certificate* is a confirmation of value in a short form with limited information of a *real property* and without containing the minimum required contents that a *valuation report* must

have, such as the *assumptions* and analytical processes behind the value provided. Simply a *valuation* certificate without containing the minimum required contents as stipulated in this Valuation Standard can not be considered as a *valuation report*. In other words, should a *report* comprise text of letter which contains the minimum required contents as stipulated in this Valuation Standard and a *valuation* certificate, it is a *valuation report*.

- (4) In some instances, the *Valuer* may be required to produce a *valuation* letter prior to the issue of a *valuation report* to assist his client(s) for their immediate need. For example, in a due diligence process, the client(s) may need a *valuation* for discussion among the management personnel and/or their professional adviser(s). Provided that the *valuation* letter contains the following two clauses, the *valuation* letter can be issued to the client(s). They are:
- (a) the letter is prepared in advance and a detailed *valuation report* will follow, and
 - (b) the letter is a restricted document which should be used by the client(s) for their internal management reference purpose only and not for any other purpose, and in particular, not for the purpose of public review and circulation.

3.0 The *Valuer* must in his *report* state in full the adopted basis/bases of value together with its/their definition.

Commentary:

Valuation reports must not be misleading. It is therefore essential that both the *Valuer* and users of *valuations* can clearly distinguish between *market value* and non-*market value* such as *investment value*. If the *Valuer* is required to provide an assessment of *investment value*, he must not describe it as *market value* but should make a clear statement that the figure is not a *market value*, but an '*investment value*'.

4.0 *Real properties* that are not considered as assets, but liabilities, are said to have a negative value. The negative figure should be reported separately and not set off against positive values of other *properties*. It is not correct in such cases to report a 'nil' figure of value.

5.0 Where the valuation comprises various *real properties* in different *jurisdictions*, the report must list out the real properties located within

each *jurisdiction* individually and the *valuation* must be stated in the currency or currencies as agreed with the client.

Commentaries:

- (1) It is a good practice to have *real properties* in one *jurisdiction* grouped together in the report, albeit with values stated separately, and under the same reporting currency.
- (2) The *Valuer* should agree with the client beforehand on the reporting currency to be used in his *report* for *real properties* located in jurisdictions other than in Hong Kong. Should the reporting currency be different from the currency being used in the *Valuation*, the *Valuer* is required to disclose the exchange rate being adopted, and the rate should be the closing rate of the currency or at a rate as advised by the auditor of the client as at the *valuation date*.
- (3) Unless the *Valuer* is instructed to value the net realisable value or receives valid tax advice from the client's local qualified tax consultant or from the client's auditor, the *valuation of real properties* in a jurisdiction other than Hong Kong must be on "free of transaction costs and tax" bases.
- (4) Should the *Valuer* be instructed to give the net realisable value of *real properties* in a *jurisdiction* other than Hong Kong, the *Valuer* must obtain a valid legal opinion or valid tax advice on the actual transaction costs and tax to be incurred in the subject *jurisdiction* from the client. If no such advice or opinions are provided to the *Valuer*, or if the *Valuer* is unable to verify the information provided, he should decline the engagement. Should the *Valuer* possesses necessary information of the actual transaction costs and tax to be incurred in the subject *jurisdiction* in disposal of the *real properties*, the *Valuer* is required to disclose his source of information in his report.

6.0 The *Valuer* must confirm that the *valuations* prepared by another *Valuer* or *firm*, either by his appointment or commissioned directly from his client, are in accordance with the *Standards* or standards compatible to the *Standards* before incorporating into the *report*. Confirmation in writing from the subject *Valuer* or *firm* is accepted under this Valuation Standard.

Commentary:

There may be cases where, for example: in the absence of knowledge or experience, the *Valuer* wants to have a *valuation* from another *Valuer* or *firm* to

form part of the *report*. When this situation occurs, a written consent from the client must be obtained prior to the appointment of another *Valuer* or *firm*.

7.0 Where a *report* is being prepared, a *Valuer* may provide the client with a draft *report* before finalising the *report*. The *Valuer* may provide such a draft report to his client provided that the document includes the following information:

- (a) the draft is provided for the client's internal use only;**
- (b) it is a draft version only and so contents of the same may be different from the final *report*; and**
- (c) the draft is provided on the condition that it would not be published or disclosed.**

If a *Valuer* omits any important matters in a draft *report*, he shall state such omissions in the said draft.

Commentary:

It is common that, when a *report* is being prepared, the *Valuer* may have to discuss various issues related to the *report* with the client. Such issues include but are not limited to ascertaining the details and accuracy of the facts and information provided by the client (such as, confirming the revenue received or clarifying the cash inflow and outflow), before the *Valuer* is able to arrive at a preliminary *valuation* of the subject.

If the above-mentioned discussions have taken place, the *Valuer* shall ensure that, other than to rectify any mistakes, errors or discrepancies or obtain further information related to the *valuation/report*, his view on preparing the *valuation/report* has not been influenced by such discussions. The *Valuer* shall keep records of such discussions with his client on preliminary *valuation* advice or draft *reports* to be prepared by him. This record shall include:

- (a) details of the information provided or suggestions made by the client related to the *valuation/report*;**
- (b) the reasons why the information is used to justify any changes the *Valuer* has made to the *valuation report* , if a change has taken place; and**

- (c) the reasons why the *Valuer*, after taking into account the information provided or suggestion made by the client, believes that there is no need to make any changes to the value of the subject *property*.

The purpose of the above procedures is to ensure that there are sufficient records to prove that the discussions between a *Valuer* and his client have not compromised the *Valuer's* independence and impartiality. Upon request, the *Valuer* shall produce such records to auditors or any other person who has a legitimate and material interest in the valuation of the subject or the *report*, including, but not limited to, the Committee of Investigation /Disciplinary Board of the Institute.

8.0 A *Valuer* shall obtain his client's consent for his including any key assumptions, including special assumptions, in the report and shall record such agreements in the engagement letter.

Commentaries:

- (1) In some instances the *Valuer* may consider key or *special assumptions* to be necessary after their investigations or during the course of their *valuation* analysis to reflect the actual circumstances. The suggested *assumptions* or *special assumptions* must be discussed and agreed with the client prior to the conclusion of the *valuation* and the delivery of the final report.
- (2) If, after investigation, a *Valuer* considers that an *assumption* which has been previously agreed by the client is proved to be inappropriate, or, instead it is more appropriate to adopt a *special assumption*, the *Valuer* shall discuss and agree with his client a revised *assumption* and approach he wishes to take prior to his concluding the *valuation* and finalising the report.
- (3) If *assumptions* are made in order to limit a *Valuer's* liability when it is impossible or impractical for the *Valuer* to carry out full investigation within the context of the client's instructions, then, unless the client has accepted such *assumptions* in advance, they may not be legally binding on the client. As such the *Valuer* may not be able to rely on such ***assumptions*** in the event that a *report* prepared by him is called into question.
- (4) Should an *assumption* and/or *special assumption* be called into question, the *Valuer* will be asked to justify his choice of *assumptions* and/or *special assumptions* and the justification may be taken into account in any disciplinary action.

9.0 If a client wishes a *Valuer* to prepare a *valuation report* for public disclosure (the whole of or the part of it) , the *Valuer* must not give consent for the *valuation report*, or allow any part thereof to be referred to, unless he is satisfied that such disclosure is accurate and is not misleading to the readers in any way.

Commentaries:

- (1) The *Valuer* should check and ensure that relevant material regarding the *properties* or the *valuation* that is to be disclosed or published is accurate.
- (2) The *Valuer* should read the whole document in which the *report* would be published or to which a reference to the *report* would be made in order to ensure that there is no misstatement of any other matter or opinion of which the *Valuer* may have knowledge.
- (3) The *Valuer* should insist that a copy of the final proof of the document in which the *report* may be published, or to which the *report* would be mentioned as a reference, must be provided to him before publication. The *Valuer* should attach a final proof of the document to the letter of consent, or make a reference to a specific final proof (such as the date and proof number / version number) of the document which he has reviewed in such letter of consent. The *Valuer* should resist any pressure or request made by other parties requesting him to sign or delegating his power to sign the letter of consent against his wish.

10.0 The *Valuer* shall retain sufficient documentation and working papers which provide reasonable evidence to demonstrate the nature and extent of the work undertaken in respect of any professional engagement for a reasonable time after completion of the engagement.

Commentaries:

- (1) For all *reports*, sufficient documentation must be kept in the working files to support the results and conclusions of the *valuation* and such documentation must be held for at least six (6) years after completion of the engagement or two (2) years after the final disposition of any judicial proceeding in which a testimony was given.
- (2) The working files must include:
 - a. the name of the client and the identity, by name or type, of any other intended users;

- b. true copies of any written *reports*, documented on any forms of media;
- c. summaries of any oral *reports* or testimony, or a transcript of testimony, the *Valuer's* signed and dated certification; and,
- d. all other data, information, and documentation, which are necessary to support the *Valuer's* opinions and conclusions and to prove compliance with *the Standards*, or reference to the location(s) of such other documentation.

(3) If a *Valuer* is unable to retain a copy of the *report* and its working papers, whether by reason of an employer's internal rules or by change of employers, all reasonable steps must be taken by the *Valuer* to ensure the availability of such data upon request. In this regard, the *Valuer* should obtain written commitment from his employer that such data will be made available when required by regulatory authorities, including, but not limited to, the Committee of Investigation /Disciplinary Board of the Institute. If the employer refuses to provide such written commitment, the *Valuer* shall keep a record of such refusal and provide it to the HKIS, upon receipt of request from the HKIS.

11.0 *Valuers* are under a general duty to treat information relating to a client as confidential when the information is disclosed to the *Valuer* as a result of the professional relationship and the disclosed information is not available in the public domain. Reasonable care must be taken to prevent a third party from gaining access to the engagement working files without the client's authorisation. It is a good practice to have a statement by the *Valuer's firm* in the Report regarding its documentation and retention policy of the engagement working files.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

PART C: APPLICATIONS

Valuation Standard 7 – Business Interests and Business Enterprises Valuations

Introduction

It is the objective of this Valuation Standard to provide standards to *Valuers* to perform business interests and business enterprises valuations (hereinafter referred to as “business valuation” in *the Standards*) and to provide a structure for regulating the development and reporting of business *valuation* through uniform practices and procedures. Save and except this Valuation Standard, *Valuers* who perform business *valuation* are also required to observe and follow other Valuation Standards as published in *the Standards* from time to time. The Institute recognises The Hong Kong Business Valuation Forum - Business Valuation Standards is compatible to this Valuation Standards.

Valuation Standard

1.0 ***Valuers must use appropriate basis of valuation recognised by the Standards for the purpose of their valuation.***

Commentary:

- (1) Business *valuations* are commonly sought and performed on the *market value basis of valuation*. Whilst the Institute does not encourage the use of *valuation* bases other than the *market value* in performing engagements related to business valuations, there will be occasions where it is necessary to adopt a value basis other than market value in order to advise the client properly. The use of a different basis of value other than *market value* does not by itself constitute a departure, but the *Member* shall clearly identify and state, in both the *engagement letter* and *report*, the basis of value involved, define such basis of value, and take steps necessary to distinguish the value estimate from a *market value* estimate. Where different bases of value are used, the provisions of VS 3.3 shall apply.
- (2) If this Valuation Standard is not followed, and the *Valuer's* selection of *basis of valuation* is called into question, the *Valuer* will be asked to justify the reasons he took and the procedures he applied, and his justification may be taken into account in any disciplinary action.

2.0 Site visits and interviews

- 2.1 **Valuers** are required to carry out a site visit / company visit to the subject business enterprise and to interview the management of the subject business enterprise to the extent necessary to produce a *valuation report* which is professionally adequate for its purpose.
- 2.2 Save and except this Valuation Standard, **Valuers** who perform business *valuations* are also required to observe and follow VS 4 should *real property* and/or other tangible assets form part of the subject business enterprise or interest.

Commentaries:

- (1) The objective of site visits / company visits and interviews is to let the *Valuer* have a better understanding of the subject business enterprise and analyse its strengths, weaknesses, risks and the quality of its assets (tangible and intangible). Unless it is an agreed desk-top assignment, *Members* shall not perform a *valuation* without physically visiting the subject business enterprise and interviewing its management.
- (2) There are cases where the income generating capability of the subject business enterprises depends greatly on the total assets that are employed by the subject business enterprises in carrying out their businesses, for example: a power plant, an oil refinery plant or a rubber plantation. As such, additional *inspections* of these assets are required and shall be subject to VS 4.
- (3) Should a client be unable to arrange a visit for the *Valuer* or instructs the *Valuer* to perform a desk-top *Valuation* without visiting the site / company, the *Valuer* is required to disclose the facts, the procedures applied to ensure that he obtained the most up-to-date information about the subject business enterprise, the *assumptions* being agreed with the client, limitations and the possible impact on his *valuation* in his *report*.

- 3.0 **Valuers** must use one or more method(s) under one or more *valuation* approach(es) recognised by the *Standards* as the appropriate approaches for the purpose of the *valuation* and, through reconciliation process (if applicable), in arriving at a conclusion of value.

Commentaries:

- (1) Currently, there are two *valuation* approaches commonly used in business *valuations*, namely: the Income Approach and the Market Approach. In addition, there is also a procedural asset and liabilities summation approach known as Net Asset Approach or Asset-based Approach. Valuers shall ensure that in all cases the *valuation* approach and its related method(s) to be used in the engagement are set out clearly in both the *engagement letter* and the report.
- (2) All the *valuation* approaches are, to a certain extent, interrelated. Examples include: the Income Approach derives cost of capital from market data; the Market Approach uses multiples of either income variable or asset values; and the Asset-based Approach derives various asset values from market evidence. While some business enterprises can be readily appraised by all three approaches, certain approaches may provide more reliable results than others for particular types of business enterprise.
- (3) *Valuers* shall exercise their own judgement on the selection of and reliance on one or more appropriate approaches and methods and shall not rely on any prescribed formula. In order to consider properly which method(s) or approach(es) shall be adopted, the *Member* shall assess whether the data and information available to him are adequate or not. For the avoidance of doubt, the reasons for his selection must be revealed in the *report*.
- (4) In each method, there are various techniques (procedures) guiding the *Valuer* to arrive at an indicative value. For the avoidance of doubt, the *valuation* techniques (procedures) followed in the application of the method(s) selected must be described in the *report*.
- (5) Business *valuation* is a complex exercise and it may not be objective enough for *Valuers* to employ a single method under a single approach. *Valuers* are advised to use two or more approaches and/or methods in performing the valuation of a business enterprise, and having considered the relevant *valuation* approaches, methods and procedures, the information available, and appropriate premiums and discounts (if any), to reconcile different value indications into a single value, or a range of values, to be reported in the *report*. Having said that, *Valuers* must be competent and be careful not to mix up and confuse the application of techniques in their *valuations*. In using the Asset-based Approach, *valuations* of *real properties*, other tangible assets, intangible assets and financial assets shall be made in accordance with *the Standards*.

- (6) In using the Discounted Cash Flow Method of the Income Approach, the *Valuer* has the responsibility (unless otherwise instructed by the client and disclosed in the *report*) to ensure that all the *assumptions* and *variables* (examples being: growth rates, discount rates and capitalisation rates) to be used in his analysis are consistent with market evidence and should be supported by market-derived data. The result of the discounted cash flow analysis should be tested and checked to avoid errors and ensure reasonableness.
- (7) If this Valuation Standard is not followed, and the *Valuer's* selections are called into question, the *Valuer* will be asked to justify the reasons he took and the procedures he applied, and his justification may be taken into account in any disciplinary action.

4.0 In some instances, the *Valuer* may be required to produce a letter of value prior to the issue of a *report* to assist his clients in coping with their immediate need. For example, during negotiation stage, the client needs a *valuation* for discussion with their management and/or their professional adviser(s). Provided that the letter of value contains the following two clauses, the letter of value can be issued to the client. They are:

- (a) the letter is prepared in advance of a detailed *report* which is to be followed, and
- (b) the letter is restricted to the client for their internal management reference purpose and shall not be used for any other purpose, and in particular, shall not be used for public circulation and disclosure.

Subject to the above, and as a minimum, a letter of value must contain the following information:

- (a) Identity of the client;
- (b) Definition of the *valuation* assignment;
- (c) *Valuation* approaches and methods used;
- (d) *Assumptions*;
- (e) Restrictions and *valuation* comments;
- (f) Conclusion of value;

- (g) **Warning statement, if any;**
- (h) **Name and qualification statement of the *Valuer*; and**
- (i) **Signature of the *Valuer*.**

5.0 The *Valuer* shall state clearly in his *report* the information that he has relied on to arrive at his *valuation* and its source. The *Valuer* shall disclose in the *report* which data has been verified and which data has not been verified.

Commentaries:

- (1) In each individual case, the *Valuer* must judge whether the information provided to him is reliable and if the information is reliable, the *Valuer* must further determine as to what extent it is reliable. If there is no option (for example, when the other services or works were commissioned directly by the client, or the *Valuer* does not have the necessary knowledge of a particular type of industry or asset) but to accept the services or works of other experts, the *Valuer* shall disclose the fact that no such steps have been taken to verify accuracy of such information and an appropriate *assumption* shall be set out in the *report*.
- (2) In some instances, the valuation *report* needs to be reproduced in full in a publication for public inspection purpose. However, the *report* may include information about a company's trading or operating information, which would not usually be available in the public domains. Such information is considered as 'commercially sensitive'. Under such circumstances, the *Valuer* shall consult the client and the client must decide, subject to the approval of the auditors and / or any regulatory body, whether it should be included in the *report*.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

Valuation Standard 8 – Intangible Assets Valuations

Introduction

It is the objective of this Valuation Standard to provide standards to the *Valuers* to perform intangible assets *valuations* and to provide a structure for regulating the development and reporting of intangible asset *valuations* through uniform practices and procedures.

Valuation Standard

- 1.0 *Valuers shall identify and clearly define the intangible asset to be valued by reference to its type and the legal rights or interests in that asset in the valuation report.***

Commentary:

With regard to the principal types and characteristics of intangible assets, *Valuers* shall refer to the IVS as published by the IVSC from time to time, or other sources such as International Accounting Standards and HKFRS.

- 2.0 *Valuers must use an appropriate basis of valuation recognised by the Standards for the purpose of the valuation.***

Commentaries:

- (1) Intangible asset *valuations* are commonly sought and performed on the *market value basis of valuation*. Whilst the Institute does not encourage the use of *valuation* bases other than the *market value* in performing engagements related to intangible asset *valuations*, there will be occasions where it is necessary to adopt a basis of value other than *market value* in order to advise the client properly. The use of a different basis of value other than *market value* does not by itself constitute a departure, but the *Valuer* shall clearly identify and state, in both the *engagement letter* and *report*, the basis of value involved, define such basis of value, and take steps necessary to distinguish the value estimate from *market value*. Where different bases of value are used, the provisions of the VS 3.3 shall apply.
- (2) If this Valuation Standard is not followed, and the *Valuer's* selection of *basis of valuation* is called into question, the *Valuer* will be asked to justify the reasons he took and the procedures he applied, and his justification may be taken into account in any disciplinary action.

3.0 *Inspections and interviews*

- 3.1 ***Valuers*** are required to interview the legally interested party(ies) in the subject intangible asset to the extent necessary to produce a ***valuation report*** which is professionally adequate for its purpose.
- 3.2 **Save and except this Valuation Standard, *Valuers* who perform intangible asset valuations are also required to observe and follow VS 4 should the *real property* and/or other tangible assets form part of the subject of the *valuation*.**

Commentaries:

- (1) The need for the *Valuer* to inspect the business facilities of which the subject intangible asset forms part, or to interview business management and other related legally interested parties in the subject intangible asset, varies significantly from one case to another. It is recognised that *Valuers* may have difficulty, or in some instances find it impossible, to arrange inspections of the *intangible* asset being valued. Even if there might be a possibility that an inspection could be made, the extent of the necessary site work is hard to define in *the Standards*. The objective of the interviews required by this Valuation Standard, and if possible, any site visit, is to allow the *Valuer* to have a better understanding of the subject intangible asset and analyse its strengths, weaknesses, risks and remaining useful life in order to arrive at a creditable *valuation*.
- (2) There are cases that the income generating capability of the subject intangible asset depends greatly on the machinery and equipment that is used, together with the subject intangible asset, to form part of a going concern businesses, for example: a Fibre Access by Sewer Tube Robot System or a Plastic Based Multi-Packaging System. As such, additional *inspections* of these machinery and equipment are required and shall be subject to VS 4.
- (3) Should the client be unable to arrange an interview with the legally interested party in the subject intangible asset for the *Valuer*, or he instructs the *Valuer* to perform a desk-top valuation without interviewing the legally interested party in the subject intangible asset, the *Valuer* is required to disclose the facts, the procedures he applied to ensure he has obtained the most up-to-date information about the subject intangible asset, the assumptions being agreed with the client, limitations and the possible impact on his *valuation* in his *report*.

4.0 Valuers must use one or more methods under one or more valuation approach(es) recognised by the Standards as the appropriate approaches for the purpose of the valuation and, through reconciliation processes (if applicable), in arriving at a conclusion of value.

Commentaries:

- (1) With regard to the valuation approaches and methods to be used for intangible asset Valuations, *Valuers* shall refer to the IVS as published by the IVSC from time to time. *Valuers* shall ensure that in all cases the *valuation* approach and its related method(s) to be used in the engagement are set out clearly in both the *engagement letter* and the *report*.
- (2) The *Valuer* shall exercise his own judgement on the selection of and reliance on one or more appropriate approaches and methods and shall not rely on any prescribed formula. In order to consider properly which method(s) or approach(es) shall be adopted, the *Valuer* shall assess whether the data and information available to him are adequate or not. For the avoidance of doubt, the reasons for the *Valuer's* selection must be stated in the report and the procedures followed in the application of the method(s) selected must be described in the *report*.
- (3) If this Valuation Standard is not followed, and the *Valuer's* selections are called into question, the *Valuer* will be asked to justify the reasons he took and the procedures he applied, and his justification may be taken into account in any disciplinary action.

5.0 The Valuer shall state clearly in his report the information that he has relied on to arrive at his valuation and its source. The Valuer shall disclose in the report which data has been verified and which data has not been verified.

Commentaries:

- (1) In each individual case, the *Valuer* must judge whether the information provided is reliable and if the information is reliable, the *Valuer* must further determine as to what extent it is reliable. If there is no option (for example, when the other services or works were commissioned directly by the client, or the *Valuer* does not have the necessary knowledge of a particular type of industry or machinery and equipment) but to accept the services or works of other experts, the *Valuer* shall disclose the fact that no such steps have been taken to verify the accuracy of such information and an appropriate *assumption* shall be set out in the *report*.

- (2) In some instances, the *valuation report* needs to be reproduced in full in a publication for public inspection purpose. However, the *report* may include information about the subject intangible asset, especially patent or trade secrets, which would not usually be available in the public domains. Such information is considered as 'commercially sensitive'. Under such circumstances, the *Valuer* shall consult with the client and the client must decide, subject to the approval of the auditors and / or any regulatory body, whether it should be included in the *report*.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

Valuation Standard 9 – Valuations for Financial Statements and Accounts Reporting

Introduction

It is the objective of this Valuation Standard to provide standards and to explain the principles that apply to *valuations* for *financial statements* and related accounts reporting of business entities. Material for this VS is drawn from the Hong Kong Financial Reporting Standards (“HKFRS”) which includes all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretation (“HKAS”) published by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and they are protected by the copyright of the HKICPA. The full text of these financial reporting standards may be obtained from the HKICPA, 37/F, Wu Chung House, 213 Queen’s Road East, Wanchai, Hong Kong. <http://www.hkicpa.org.hk>

Valuation Standard

1.0 Valuations for inclusion in *financial statements* prepared in accordance with HKFRS shall be based on any one of the following:

- (a) **Real *properties* (land and buildings) under a revaluation model (HKAS 16):**
Fair value should be determined from market-based evidence by *valuation* undertaken. However, in the absence of market-based evidence due to specialized nature of the items of *property* and the item is rarely sold, the income approach or a depreciated replacement cost approach may be adopted.
- (b) **Investment *real properties* (land and/or buildings) under a fair value model (HKAS 40):**
Fair value should be determined on the basis of a *valuation*.
- (c) **Plant and equipment under a revaluation model (HKAS 16):**
Fair value should be the *market value* determined by *valuation*. However, in the absence of market-based evidence, the income approach or a depreciated replacement cost approach may be adopted.
- (d) **Properties other than described in (a), (b) and (c) above:**
To be advised by the auditor of the client in accordance with relevant HKFRS and agreed with the client prior to conducting the *valuation*, for examples: intangible assets and financial derivatives.

Commentaries:

- (1) In preparing *valuation* report for financial reporting purpose, the *Valuer* should refer to the financial reporting standards adopted by the client on fair value measurement in order to arrive at the fair value of the *property*. The basis of fair value *valuation* as defined in the International Financial Reporting Standards (“IFRS”) 13 or HKFRS 13 should be set out in full in the *engagement letter* and in the *valuation report*. The definition of fair value in the financial reporting standards is different from the fair value definition in the IVS and the *Standard*. The Institute considers that the references of financial reporting standards to market participants and an orderly transaction make it clear that for most practical purposes, fair value is generally consistent with the conceptual framework of market value settled by the IVS.
- (2) The term “Fair Value” is defined by the IFRS 13, which the HKFRS 13 follows, as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price)”. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).
- (3) While different professions have different interpretations for the term “Plant and Equipment”, the Institute has adopted the interpretation set out in the IVS, that is, “Items of plant and equipment are tangible assets that are held by an entity for use in the production or supply of goods and services, for rental by others or for administrative purpose and that are expected to be used over a period of time”.
- (4) For different categories of *property* or properties in different locations, different measurement bases may be required due to different financial reporting standards adopted by the clients. Thus, *Valuer* should agree with the client and the auditor on the use of appropriate *basis of valuation* in the *engagement letter* and disclose the same in his report on or before the date he signs off his *report*.
- (5) The Institute notices that in some instances *Valuers* need to follow a set of procedures as required by the HKFRS or to arrive at a value other than a *market value* for aiding the accountant in the establishment or restatement of *financial statements*, such as ‘fair value less costs

to sell', 'value in use' or 'purchase price allocation in a business combination'. In this context, *Members* need to disclose the set of procedures in the *report* and to follow *the Standards* whenever and wherever possible in preparing the *report*.

- (6) Clients may ask the *Valuers* to liaise with their auditors before they sign off the *valuation reports*. GN 1 provides guidance about the relationship between the *Valuer* and the auditor for the *Members* to follow.
- (7) *Members* should be aware that under the HKAS 16 "Property, Plant and Equipment", when there is no market-based evidence of fair value because of the specialised nature of the valued *property*, the estimated fair value may be reached by using an income or a depreciated replacement cost approach.
- (8) *Members* are encouraged to obtain copies of relevant HKFRS from the HKICPA in order to have a better understanding on the *basis of valuation* before performing *valuation* engagements for *financial statements* and accounts reporting purposes.
- (9) This VS not only applies to valuation reports prepared under the HKFRS, but also applied to *valuation reports* performed in the context of other financial reporting standards.

2.0 According to VS 6.9, the Valuer must not give consent or allow any part of the valuation report to be referred to in the financial statements, unless he is satisfied that such reference is accurate and is not misleading to the readers.

Commentaries:

- (1) The *Valuer* should check and ensure that relevant material regarding the *properties* or the *valuation* that is to be published is accurate.
- (2) The *Valuer* should read the related part(s) and portion(s) of the *financial statements* to which a reference to his report would be made in order to ensure that there is no misstatement of any other matters or opinions of which the *Valuer* may have knowledge.
- (3) The *Valuer* should request the client to provide a copy of the final proof of the related part(s) or portion(s) of the *financial statements* in which the *report* is mentioned as a reference, and he should attach that provided copy he has reviewed in his consent to the client.

- (4) When a reference has been made to the *report* by the auditor in the *financial statements*, a qualification statement about the *Valuer* or his *firm* is required in the reference. *Members* who are the *Valuers* may consider to use the following format as their qualification statement in the *financial statements*:

'The property was valued by [name of the Valuer's firm], a firm of independent qualified Professional Surveyors in Hong Kong, who has the necessary experience in the location and category of the property being valued for the purpose of such valuation, and the valuer(s) of the firm is/are Corporate Member(s) of the Hong Kong Institute of Surveyors.' in case the *Valuer signs off the report* for and on behalf of the *firm*

OR,

The property was valued by [name of the Valuer but not the firm], a Corporate Member of the Hong Kong Institute of Surveyors, who possesses the necessary experience in the location and category of the property being valued for the purpose of such valuation.' in case the *Valuer signs off the report* in his own capacity.

- (5) There may be cases where the clients or the auditors, for unknown reason(s), have not informed the *Valuers* about reference to the *reports* in the *financial statements*. If this happens and the *Valuers* are able to show that the act is remote and beyond their control (for instance, when they are not informed of such references prior to the publication of the *financial statements*), their mandatory responsibilities under VS 6.9 and VS 9.2 are exempted. However, *Valuers* are always reminded to have a 'restriction to publication' clause agreed in the *engagement letter* and to disclose the same in the *reports* to protect their interests.

3.0 The valuation date for inclusion in the financial statements must be the ending date of the reporting period of the financial statements, or at a date earlier than the ending date of the reporting period of the financial statements, subject to the advice from the client.

Commentary:

It is a general practice to have the *valuation date* being set as of the ending date of the reporting period of the *financial statements* (or referred to as the 'cut-off date'). There are cases that the *valuation date* may be set at a date

earlier than the ending date of the reporting period of the *financial statements*, such as the transaction date. *Valuers* are required to discuss with the clients and the auditors of the clients to confirm the *valuation date* prior to taking up the engagement.

4.0 In the circumstances that a *Valuer*, at the instruction from the client, is required under the HKFRS to apportion the reported value of a *real property* separately to the land element, on the basis of *market value*, and to the improvements. The apportionment may be done by using one of following methods:

- (a) By deducting from the cost, or *valuation* of the whole *real property*, the value of the land for its existing use as of the *valuation date*. In many instances there will be ample evidence of land values upon which a notional apportionment can be made. However, where there is little or no evidence of the land values, greater reliance will have to be placed on method (b) below.
- (b) By making an assessment of the net replacement cost of the improvements as of the *valuation date* and deducting this from the cost or valuation of the whole *real property*. The figure for the improvements will be derived from gross replacement cost which will then be reduced to the written-down value or net replacement cost, in order to reflect the current value of the *real property* to the business.

The *Valuer* should consult the *directors* of their clients and/ or auditors acting for the clients as to the basis of calculating the depreciable amount of the improvements, in order to maintain consistency of practice in the future.

5.0 The *Valuer* should refer to material events after the reporting period in the *financial statements* of which he becomes aware and which would likely affect his *valuation* in the *report*, and, at the advice sought from the client and its auditors to distinguish those events between adjusting or non-adjusting events in the *report*.

Commentaries:

- (1) In referring to those material events in the *report*, the *Valuer* is required to discuss and obtain consent from the *directors* of the client to disclose such events in the report. The *Valuer* is also required, at the advice from the *directors* of the client to distinguish between commercially

confidential events or non-commercially confidential events, in particular when the material events are price sensitive to a public company.

- (2) HKAS 10 “Events after the Reporting Period” refers to events which occur between the end of the reporting period and the date on which the *financial statements* are approved by the *directors* of the clients and imposes upon the *directors* certain obligations regarding the disclosure of the events. Such events may be classified as “adjusting events” or “non-adjusting events”. *Valuers* are advised to refer to the HKAS 10 for the examples of different events.

6.0 Any *real property* occupied by a company under an inter-company leasing arrangement within a group account should be valued as owner-occupied *real property*.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

Guidance Note

A guidance note known as “Working Relationship with Auditors of the Clients in Conducting Valuation Engagement for Financial Statements and Accounts Reporting Purposes” is published in GN 1 of the Standards.

Valuation Standard 10 - Valuations of Real Properties for Secured Lending Purposes

Introduction

It is the objective of this Valuation Standard to provide standards in conducting *valuations of real properties* for secured lending purposes and in writing *valuation reports*, for *Valuers* to follow in communicating such analysis and opinion in a manner that is not misleading to their clients and readers.

Valuation Standard

- 1.0 Except as otherwise stated, *valuations of real property* for secured lending purposes shall be prepared in accordance with the Guidance Notes on Valuations of Real Properties for Mortgage Purposes published by the HKIS from time to time.**

Commentary:

It would be usual for the *Valuer* to be asked to express an opinion as to the suitability of the *real property* as security for a loan. It is, however, a matter for the lender to assess the risk involved and express their assessment in fixing the terms of the loan, such as the percentage of value to be advanced, and provision for repayment of the capital and the interest rate. The *Valuer* should refer in his *report* where one is to be provided, to all matters which are within his knowledge and which may assist the lender in his assessment of the risk.

- 2.0 When a *real property* is valued as security for a loan, by way of mortgage, debenture or otherwise, the *valuation* shall normally be on the basis of *market value*.**

Commentary:

- (1) It is not normally appropriate to value a *real property* to be used as security for a loan on a basis other than *market value*. Where, however, a bank or other lending institution requires the *Valuer* to report on a basis, either in addition to or in place of *market value*, examples of such alternative basis include: *valuation* of flats subject to the restrictions upon assignment under Home Ownership Scheme or Sandwich Class Housing Scheme, value for sale under repossession or 'surrender value' of industrial *properties* located in various industrial estates in Hong Kong subject to restrictions on assignment and underletting. The

Valuer should ascertain from the client, as a condition of providing such a *valuation*, details of when and how a sale is desired and whether or not completion of the legal formalities, as well as the existence of any sales restrictions, should be factored into the *valuation*. Under such circumstances, it is prudent for *Valuers* to include an estimate or other appropriate information in their report as to the extent to which a non-*market value* estimate may differ from the *market value*.

- (2) In some cases, *Valuers* are required to give an estimate of building insurance replacement cost of the subject *real properties* in the *reports* for the lenders' reference. In producing the estimated building insurance replacement cost in the *report*, should the *Valuer* not consider himself a qualified professional to give an accurate building insurance replacement cost of the subject *real property*, he should reach an agreement with the lender prior to the issue of the *report* on the source of the building insurance replacement cost to be referenced and the way to use such building insurance replacement cost and to disclose the same in the *report*. To avoid doubt, the HKIS considers that the qualified professional in producing the building insurance replacement cost should be a professional quantity surveyor or a firm of professional quantity surveyors in Hong Kong.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

Guidance Note

A guidance note known as “Guidance Notes on Valuations of Real Properties for Mortgage Purposes” is published in GN 2 of the Standards.

Valuation Standard 11 - Valuation Reports in Listing Documents and Circulars to be Issued by the New Applicants or Listed Issuers on the Hong Kong Stock Exchange

Introduction

It is the objective of this Valuation Standard to provide standards in preparing *valuation reports of properties* for inclusion in listing documents and circulars to be issued by new applicants or listed issuers on the Hong Kong Stock Exchange for the *Valuers* to follow in communicating such analysis and opinion in a manner that is not misleading to their clients and readers.

Valuation Standard

1.0 ***Valuation reports for inclusion in listing documents and circulars in Hong Kong shall follow the Standards and the Listing Laws simultaneously.***

Commentary:

- (1) The *Listing Laws* are either published by the Hong Kong Companies Registry, the HKEx or SFC (together referred to as the “Regulators” in the *Standards*) and to be amended from time to time by the Regulators.
- (2) Unless otherwise stated in the relevant *Listing Laws*, the Institute recognises that the basic contents of the *valuation reports* for inclusion in listing documents and circulars follow *the Standards*. However, there are cases that the Regulators may, depending on various circumstances, require additional information to be included in the reports. *Valuers* are required to observe the requirements of the Regulators from time to time to be included in their *reports*. Should the specific requirement(s) depart from *the Standards*, a clear statement of any *departure(s)* and *special assumption(s)*, if any, together with details of, and reasons for these, and the client’s agreement, must be given in the report.
- (3) There are cases that reporting standards on certain *properties* may not yet be covered by *the Standards*, for example: biological assets or plant and machinery. Under such circumstances, *Valuers* should refer to the reporting standards of such specific *property* to the IVS, where appropriate. However, the minimum contents requirement in VS 6 must be observed in all cases.

2.0 Valuers must possess sufficient knowledge, skill, and experience to complete the *valuation reports* for inclusion in listing documents and circulars in Hong Kong efficiently in relation to an acceptable professional standard as required in *the Standards*.

Commentaries:

- (1) The businesses of the listing applicants and listed issuers in the Hong Kong Stock Exchange and their investments sometimes cover different industries or special assets of which *Valuers* may not have the relevant industry knowledge. If the *Valuer* lacks the requisite industry knowledge and experience in preparing a *report*, he must take all steps as necessary and appropriate to complete the *report* professionally, these including, but not limited to, obtaining outside assistance from a competent and knowledgeable person(s) who have the necessary industry knowledge and experience. This outside assistance could be an industry consultant who provides industry advice to the *Valuer* or an Additional Valuer from the relevant valuation profession to support the work of the *Valuer*, depending on the actual requirement. The name and qualification statement of the outside assistant must be included in the *report*.
- (2) In some instances, the client or the Regulators will expect *Valuers* to express opinions or comments upon legal issues, for example: terms of contracts or details of encumbrances attached to the *property*, which may affect their *valuations*. *Valuers* must therefore make clear in their reports any information which must be verified by the legal advisers of the clients other interested parties before the valuation can be relied upon or published. The *Valuer* should not give advice outside his area of expertise, for example: the reasonableness of terms of transaction which are commercial decision rather than a *valuation*, and should refrain from giving opinion on matters other than *valuation*.

3.0 Should the *Listing Laws* require Valuers to include *real properties* under operating leases of the new applicants or listed issuers in the *valuation reports*, Valuers are required to distinguish between reporting the *valuation* of a leasehold interest(s) which are carried at *market value*, or reporting the operating lease(s) as part of a valuation report.

Commentaries:

- (1) *Real property* under lease may have a *market value* to the lessee, for example: the lessee has the right to assign, transfer, sublet, mortgage

or otherwise dispose of the leasehold interest in the subject real property without the consent of the lessor. The *Valuer* is required to study the subject lease and to conduct a *valuation* of the subject *real property*, when and where appropriate, and to report the *valuation* in a *report* for inclusion in the listing documents and circulars and/or for public inspection in accordance with the *Listing Laws*.

- (2) A *Real property* under lease and defined by the *Listing Laws* as an operating lease has no *market value* due to restriction on transferring or subletting. Thus, the *Valuer* is only required to report the subject *real property* as part of a *valuation report* without conducting any form of valuation. As no *valuation* is required, the *Valuers* should agree with the clients whether or not to conduct any *inspection* of the subject *real property*. However, the verification of information requirement in VS 5 must be observed in all cases.
- (3) There are cases that *real properties* under operating leases are situated overseas. The Institute takes the view that the role of the *Valuer* is to report the lease and simple information of the subject real property but not to conduct any form of analysis and *valuation*. As long as a valid legal opinion on the legality of the lease can be provided to the *Valuer* by the client, the *Valuer's* experience in valuing similar *real properties* in the subject market is irrelevant in such cases.

4.0 Should a *report* include information about a company's trading or operating information which would not usually be available in the public domains, such information is considered as 'commercially sensitive'. Under such circumstances, the *Valuer* shall consult his client and the client must decide, subject to the approval of any regulatory body, whether it should be included in the *report* for the inclusion in the listing documents and circulars.

Effective date

This Valuation Standard becomes effective on 1 January 2013.

Part D: Guidance Notes

GN 1 Working Relationship with Auditors of the Clients in Conducting Valuation for Financial Statements and Accounts Reporting Purposes

1. According to various standards on auditing, the auditor has a responsibility, when using the work performed by an auditor's expert (individual or organisation), to obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit. The Institute noted that the term "Expert" is defined by the Hong Kong Standard on Auditing 620 "Using the Work of an Auditor's Expert" as "an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence". An auditor's expert may be either an auditor's internal expert or an auditor's external expert. The HKIS considers that a *Member* who is a qualified Valuer as defined in the Standards in performing *valuations* for *financial statements* and accounts reporting are an auditor's expert.
2. The auditor in performing his evaluation on whether the work of an auditor's expert is appropriate for the auditor's purposes, will consider the relevance and reasonableness of:
 - the source data used;
 - the *assumptions* and methods used; and
 - the result of the auditor's expert work in the light of the results of other audit evidence.
3. In the course of the auditor's due diligence to the work with the auditor's expert, the auditor will follow the relevant standard on auditing by making inquiries regarding any procedures undertaken by the auditor's expert and reviewing or testing the data used by the auditor's expert. In some circumstances, even working papers are required to be submitted to the auditor for his review or testing.
4. The *Valuer* is reminded that prior to submitting his working papers or data to the auditor, careful thought is required on the following:
 - the scope of work as agreed in the *engagement letter* with the client;
 - the nature of the working papers and data, such as copyright of the author or third parties other than the *Valuer*; and,

- the consequences of the release of the working papers and data by the *Valuer*, such as a breach of confidentiality agreements made with the client or data provider, the potential litigation risk on the release of the *Valuer's* working papers to a party other than the client, and the coverage of the *Valuer's* Professional Indemnity Insurance.
5. The *Valuer* is reminded to reach an agreement with the client in the *engagement letter* on the working relationship with the client's auditor. This could include the way and the extent of releasing working papers and data to the client's auditor, to avoid unnecessary disputes with the client and the client's auditor thereafter and any potential litigation in the future.
 6. Should the *Valuer* consider that the release of working papers and data to the client's auditor may incur potential litigation or damage to him or his *firm*, he shall reach a hold harmless and indemnify agreement with the client (as the *Valuer* has no contractual relationship with the client's auditor) prior to working with the client's auditor. Otherwise, he shall terminate the engagement upon the consent of the client.
 7. It is a good practice to have a meeting with the client and their auditor to understand and to agree on the scope of work prior to proposing and signing off the *engagement letter* to the client.

GN 2 - Guidance Notes on Valuations of Real Properties for Mortgage Purposes in Hong Kong

The objective of the Guidance Notes on *Valuations of Real Properties for Mortgage Purposes* is to provide guidance to Valuers upon preparation of valuation reports of real properties on behalf of banks or lending institutions or lenders for mortgage or financing purposes in Hong Kong.

1. THE QUALIFIED VALUER'S ROLES

- 1.1 The roles of the qualified Valuer are:
 - 1.1.1 to advise the bank or lending institution or lender (hereinafter collectively referred to as "the Lender") as to the *market value* of the *real property(ies)* at the *valuation date*; and
 - 1.1.2 to advise the Lender as to the nature of the *real property* (see Section 4 below) and any factors likely to materially affect its market value.
- 1.2 It would be usual for the Valuer to be asked to express an opinion as to the suitability of the *real property* as security for a loan. However, the Valuer should not make a recommendation as to the amount or percentage of mortgage advance or as to the length of the mortgage term. Nor is it the *Valuer's* responsibility to give advice as to the suitability of the real property 'for second mortgage purposes'.
- 1.3 Where the Lender requires the Valuer to advise on the values of certain *real properties*, either in addition to or in place of *market value*, e.g. *valuation* of flats subject to the restrictions upon assignment under Home Ownership Scheme or Sandwich Class Housing Scheme, 'surrender value' of industrial properties located in Industrial Estates in Hong Kong subject to restrictions on assignment and underletting, etc., the *Valuer* should state clearly the *basis of valuation* adopted in the *report*.

2. THE VALUER'S INSPECTION

A visual and physical *inspection* shall be undertaken to the exterior and interior of the *real property* as long as the same is accessible to the *Valuer* (or designated staff under supervision of the *Valuer*) without undue difficulty. With

regard to the scope of inspection to be performed by the *Valuer*, it is a best practice for the *Valuer* to agree with the Lender prior to commencement of his *valuation* and to document such agreement in an *engagement letter*. While the scope of the *inspection* is to be agreed between the *Valuer* and the Lender, the *Valuer* is required to observe the Valuation Standard 4 – *Inspections* and Investigations of *the Standards* and in no way should it give rise to a result that would mislead the Lender who reads the report. Where the Lender has instructed the *Valuer* not to carry out any *inspection* (internal or external or both), the *Valuer* should state such instruction in the *report* and a caveat or *assumption* is required to reflect the absence of *inspection*. To avoid doubt, *inspection* required under the Standards is not in any form of a building survey to the subject *real property*.

3. THE VALUER'S REPORT

- 3.1 Subject to the matters referred to in Sections 1 and 2 above, the *report* should be confined strictly to answering questions raised by the Lender.
- 3.2 If it is suspected that there exists hidden defects that could have material effect on the value of the *real property*, the *Valuer* should so advise and recommend to the Lender that a more extensive investigation should be carried out. It may be appropriate in exceptional circumstances to defer making a *valuation* until the results of such further investigations are made known to the *Valuer*.
- 3.3 If it is not possible to carry out *inspection* on any substantial part of the real property, this should be stated in the report.
- 3.4 If there is obvious evidence of any serious disrepair, potential hazard or any other matters which may materially affect the value of the *real property*, this should be stated in the *report*.
- 3.5 Where the *Valuer* relies on information provided by others, this should be indicated in the report, so should the source of that information. With regard to the verification work to be conducted by the *Valuer*, it is a good practice for the *Valuer* to agree with the Lender prior to commencement of his *valuation* and to document such agreement in an *engagement letter*. While the scope of the verification work is to be agreed between the *Valuer* and the Lender, the *Valuer* is required to observe the Valuation Standard 5 – Verification of Information of *the Standards* and in no way should it give rise to a result that would mislead the Lender who reads the *report*.

- 3.6 The Lender should be informed of the existence of any apparent and significant additions, alterations and extensions so as to alert the Lender's legal adviser for any enquiries to be made. In particular, the Lender's attention should be drawn to any unauthorised structure or addition or alteration made in the subject *real property* or any other apparent unauthorised structures which are or could be subject to action under Section 24 of the Buildings Ordinance (Chapter 123 – Laws of Hong Kong).

The Valuer should consider the subject real property in accordance with its original approved state and disregard any premium attached to the unauthorised additions and/or alterations. Unless otherwise agreed between the Valuer and the Lender and with assistance from a registered contractor in the government, the Valuer would not consider any costs required to restore the real property to its original approved state if requested by the government authorities. The Valuer should state such assumptions in the report. If as instructed by the Lender to make any assumptions which are different from the above, the Valuer must state such assumptions in the report.

- 37 If there are any additional requirements from a Lender in conducting *valuations*, subject to the agreement made between the Lender and *Valuer* beforehand, extra information or findings can be included in the report.
- 38 The format and extent of the detail of the *report* are a matter of the *Valuer's* discretion except where the *report* is to be provided on a form supplied by the client. The presentation of the valuation report should take into account the need for any special format and should contain the following minimum required information:
- (a) **the identification of the client;**
 - (b) **the purpose of the *valuation*;**
 - (c) **the subject of the *valuation*;**
 - (d) **the interest to be valued;**
 - (e) **the basis or bases of *valuation*;**
 - (f) **the *valuation* date;**
 - (g) **the status of the *Valuer* and where appropriate and applicable, the disclosure of any material involvement, previously or current;**
 - (h) **the currency in which *valuation* is to be expressed;**
 - (i) **any *assumptions*, *special assumptions*, reservations, any special instructions or departures;**

- (j) the extent of the *Valuer's inspections* and investigations;
- (k) the nature and source of information to be relied on by the *Valuer*;
- (l) any consent to, or restrictions on, publication;
- (m) any limits or exclusion of liability to parties other than the client;
- (n) the confirmation that the valuation complies with the requirements set out in *the Standards*;
- (o) a statement or description of the valuation approach;
- (p) a statement of the Valuer's professional qualification in performing the valuation;
- (q) the opinions of value in figures and words;
- (r) the name and the signature of the Valuer; and
- (s) the date of the report.

4. THE VALUATION

4.1 Unless it is made apparent by an express statement in the *report* and subject to paragraph 3.6 of Section 3 above, the Valuer should make the following assumptions and will be under no duty to verify these assumptions:

- 4.1.1 that all necessary statutory approvals for the subject real property or the building of which the subject real property forms part of their use have been obtained;
- 4.1.2 that no deleterious or hazardous materials or techniques have been used in the construction of the subject *real property*;
- 4.1.3 that the subject *real property* is not subject to any unusual or especially onerous restrictions, encumbrances or outgoing and that good title can be shown;
- 4.1.4 that those parts of the subject *real property* which could not be inspected would not reveal material defects or cause the Valuer to alter his *valuation*;
- 4.1.5 that the subject *real property* is connected to main services and sewers which are available on normal terms;
- 4.1.6 that in the case of a *real property* which is under construction, the *real property* will be satisfactorily

- completed to the standard in due course and details as described in the latest development schedules as contained in the sales brochure;
- 4.1.7 that in *valuation* of a strata-titled *real property*, unless instructed by the Lender or otherwise aware of to the contrary, the cost of repairs and maintenance to the building of which the subject *real property* are shared among all owners of the building, and that there are no onerous liabilities outstanding.
- 4.2 Suggested factors to be taken into account in the valuation are:
- 4.2.1 the tenure of the *real property* - If the *real property* is subject to tenancy(ies), details including lease period(s), rental amount(s), option to renew and other relevant conditions should be included;
- 4.2.2 the age, type, accommodation, location, amenities, fixtures and features of the *real property* and other significant environmental factors within the locality;
- 4.2.3 the general state of repair, the construction and apparent major defects; and
- 4.2.4 the overall quality of building management of which the *real property* forms part of.
- 4.3 In assessing the *market values* of strata-titled units, unless otherwise instructed, any redevelopment potential attached to the site is to be excluded. The *Valuer* would also not to include any element of value attributable to furnishings and removable fittings of any description when arriving at an opinion of value. Portable and temporary structures are also to be excluded.
- 4.4 '*Market Value*' shall be adopted in accordance with the Standards.
- 4.5 The *valuation* shall be made on the assumption that the owner sells the subject *real property* on the market without the benefit or burden of cash rebate, unusual payment terms, special incentive or any similar arrangement which could affect the value of the subject *real property*.

4.6 Value for sale under repossession

Value for sale under repossession (the word repossession means the action of regaining possession especially the seizure of collateral securing a loan that is in default) refers to the price that might reasonably be expected to realise within a defined period of time (the period shall be agreed upon between Lender and Valuer) from the sale of a *real property* in the market under repossession by the Lender or receiver, on an “as is” basis, taking into account the unique quality of the real property and the existence of any specific demand as well as factors which might adversely affect the marketability of the *real property* due to market perception of increased risk or stigma, justified or otherwise. It is a procedural *valuation* and in no way be a basis of value.

Examples where increased risk or stigma that might arise include but not limited to the following:

- (1) the need for substantial renovation and/or repairing cost owing to neglect and deterioration of physical conditions of the *real property*;
- (2) the need for abortive expenses incurred in checking titles when warranty on title is denied; and
- (3) the need for completion at a short time frame.

To provide an estimate of the value for sale under repossession, the *Valuer* should:

- (1) estimate the *market value* of the *real property*;
- (2) discuss with the Lender or receiver on the specific risk or stigma (such as additional costs and time to obtain vacant possession, and the need for completion at a short time frame) that might have impact on the *market value* whilst taking into account the unique quality of the *real property* and the existence of any specific demand; and
- (3) analyse and apply adjustment(s) to the *market value* of the *real property* by taking into account the negative impacts and to arrive at the value for sale under repossession independently.

5. BUILDING INSURANCE REPLACEMENT COST

In some cases, *Valuers* are required to give the building insurance replacement cost of the subject *real properties* in the *reports* for the Lenders' reference.

The building insurance replacement cost is defined as the estimated cost of erecting the same *real property* or a modern substitute real property having the same area as the existing one at the relevant date, which includes fees, finance costs and other associated expenses directly related to the construction of the *real property*. Coverage for loss of rent and other disturbances will not be included unless specifically requested by the Lender.

In producing the building insurance replacement cost in the *report*, should the *Valuer* consider himself not a qualified professional to give an accurate building insurance replacement cost of the subject *real property*, he should reach an agreement with the Lender prior to the issue of the *report* on the source of the building insurance replacement cost to be referenced and the way to use such building insurance replacement cost, and to disclose the same in the *report*. To avoid doubt, the HKIS considers that the qualified professional in producing the building insurance replacement cost should be a professional quantity surveyor or a firm of professional quantity surveyors in Hong Kong.

6. THE VALUER'S RECORD

6.1 The *Valuer* should keep a record of the source of information quoted in the *report* and to make and retain legible notes as to his findings and, particularly, the limits of inspection and the circumstances under which it was carried out.

6.2 The *Valuer* should also keep a record of the comparable transactions and/or *valuations* to which he/she has had regard in arriving at his *valuation*.

7. CONFLICT OF INTEREST

Where there is any conflict or potential conflict of interest, the *Valuer* should disclose the facts to the Lender before acceptance of instructions. The *Rules* should be observed by the *Members* in all cases.

Where the Lender agrees the *Valuer* to accept the instructions under the above circumstances, the *Valuer* should disclose the facts clearly in the *report* and that the valuation is carried out impartially without bias against any parties concerned.

8. COMPLIANCE WITH THE GUIDANCE NOTES

All *valuations* for mortgage purpose should be made in accordance with this Guidance Notes. In cases where there are deviations from this Guidance Notes, the Valuer should notify the Lender, or be notified by the Lender, in writing. Such deviations should be clearly stated in the *valuation report*.

Valuers are reminded to observe their duty of care to the Lenders in performing their valuation, and the extent of liability of their *valuation reports* to the Lenders.

Part E: Glossary of terms used in the Standards

1. The HKIS believes that *Members* who prepare a *report* shall possess specialised skills, experience, expertise and knowledge. Also, *Members* shall communicate the procedures to value and conclusions, in a manner that is clear and not misleading, to their clients. As such, it is advisable for the *valuation* profession to use commonly used terms, which definitions have been established clearly and consistently and have been widely applied in the profession to enhance consistency and develop better communication.
2. In order to enhance and maintain the professional standard of the *Members* in preparing the *reports* in accordance with the requirements set out in *the Standards*, the HKIS has adopted certain definitions published by various institutions, including, but not limited to, the IVSC, in this glossary. The *Members* are highly recommended to adopt such definitions in the *reports*.
3. If any *Member* wishes to adopt any definitions that are materially different from the definitions set out in this glossary, the *Member* should set out his own definitions clearly in the *engagement letter* and *report* in order to avoid misunderstandings, confusion and potential disputes.
4. The definitions set out in this glossary are not exhaustive. If there are any definitions that are not referred to in this glossary, it is recommended that the definitions be defined and elaborated precisely and clearly in an *engagement letter*.

appraisal	See <i>valuation</i> .
assumption	A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a <i>valuation</i> that, by agreement, need not be verified by the <i>Member</i> as part of the <i>valuation</i> process. Typically, <i>assumptions</i> are made where specific investigation by the <i>Valuer</i> is not required in order to prove that something is true.
basis of valuation	A description, or definition, of a value of an interest in <i>property</i> within a given set of parameters.
departure	Circumstances where the <i>Member</i> considers that it is inappropriate, or impractical, for the <i>valuation</i> to be made wholly in accordance with <i>the Standards</i> .

directors	The individual(s) responsible for the management of a company, <i>firm</i> or entity. This also includes, where the context so admits, the corresponding officers charged with similar duties (for example, trustees) of an undertaking, enterprise or other organisation, which does not have <i>directors</i> .
engagement letter	Written confirmation of the terms and conditions that either the <i>Member</i> proposes, or the <i>Member</i> and client have agreed shall apply to the undertaking and reporting of <i>valuation</i> or appraisal.
financial statements	Written statements of the financial position of a person or a corporate entity and formal financial records of prescribed content and form. These are published to provide information to a wide variety of unspecified third-party users. Financial statements carry a measure of public accountability that is developed within a regulatory framework of financial reporting standards and the law.
firm	The <i>firm</i> or organisation for which the <i>Member</i> works, or through which the <i>Member</i> trades.
inspection	A visit to a <i>property</i> to examine it and obtain relevant information, in order to express a professional opinion of its value. (See also <i>survey</i>).
(the) Institute/HKIS	The Hong Kong Institute of Surveyors incorporated under the Hong Kong Institute of Surveyors Ordinance (Chapter 1148 – Laws of Hong Kong).
investment value	See <i>worth</i> .
jurisdiction	An organised political community under one government.
Listing Laws	Companies Ordinance, Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, and Codes on Takeovers and Mergers and Share Repurchases in Hong Kong.
method of valuation	A <i>method of valuation</i> is a procedure, or series of steps, to arrive at the value specified in the <i>basis of valuation</i> . Example of such methods include market comparison

	method, the investment method, the residual method, discounted cash flow method and the profits method.
Member	A Corporate Member from the General Practice Division as referred to in the Constitution of the Hong Kong Institute of Surveyors. <i>Member</i> undertaking valuation would become <i>Valuer</i> .
property	A collective term used to describe <i>real property</i> , tangible asset, intangible asset, business interest, and financial interest.
real property	Land or buildings, whether the interest is a freehold or leasehold interest, and includes car parks and assets incidental to the ownership or real estate (e.g. fittings, fixtures, etc).
reasonable valuer	A <i>reasonable valuer</i> is one who maintains a level of performance that would be acceptable to the General Practice Division Council of the HKIS. If the General Practice Division Council of the HKIS concludes that there is no rational foundation for an analysis or opinion, then such analysis or opinion would not be justified.
report/valuation report	The written means, including material transmitted by electronic means, of providing the client with the <i>valuation</i> or appraisal.
special assumption	An <i>assumption</i> that either: <ul style="list-style-type: none"> a) requires the <i>valuation</i> to be based on facts that differ materially from those that exist at the <i>valuation date</i>; or b) is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the <i>valuation date</i>, having regard to prevailing market circumstances.
specialised properties	Certain types of <i>real properties</i> which are rarely, if ever, sold in the open market, except by way of a sale of the business of which they are a part (called the business in occupation), due to their uniqueness arising from the specialised nature and design of the buildings, their

configuration, size, location or otherwise. Examples include refineries, power stations, docks, specialised manufacturing facilities, public facilities, churches, museums, so on and so forth.

(the) Standards	The HKIS Valuation Standards.
survey	<i>An inspection of a real property or land for the purpose of recording specific information. Surveys may be required for a variety of purposes, such as to assess structural condition, dimensions, soil condition, quality, and so on.</i>
third party	Any party, other than the client, who may have an interest in the <i>valuation</i> or its outcome.
valuation method	See <i>method of valuation</i> .
valuation	<i>A Member's opinion of the value of a specified interest or interests in a property, at the valuation date, given in writing. Unless limitations are agreed in the engagement letter, this will be provided after an inspection, and any further investigations and enquiries that are appropriate, having regard to the nature of the property and the purpose of the valuation.</i>
Valuer	A Corporate Member from the General Practice Division of the Hong Kong Institute of Surveyors who complies with the requirements of <i>the Standards</i> . In <i>the Standards</i> , this term is interchangeable with <i>Member</i> .
worth	The value of a property to a particular investor, or class of investors, for the identified investment objectives. In this context, an investor includes an owner-occupier.

Part F: Appendices to Valuation Standards and Guidance Notes

Appendix VS 1.1 – Types of Valuers

1. The attention of *Members* is drawn to the definitions of types of *Valuers* given below. *Members* must satisfy themselves that they meet the requirements laid down below when accepting instructions for preparing *valuation reports* for various purposes as referred to in *the Standards*.

2. Internal Valuer

An 'Internal Valuer' is a Valuer who is an employee and has no significant financial interest in the company or organisation that he works at. A significant financial interest refers to a person, his family members or associates entitling (individually or collectively) to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the client's company or group.

3. External Valuer

An 'External Valuer' is a Valuer who is not an Internal Valuer and, where neither he nor any of his associates are *directors* or employees of the client's company or of another company within client's group of companies or have a significant financial interest in the client's company or group, and where neither the client's company nor group has a significant financial interest in the *Valuer's firm* or company. 'Company' includes any other form of organisation, e.g. a trust.

4. Independent Valuer

An 'Independent Valuer' is an External Valuer and who has no current or presently foreseeable potential fee earning relationship concerning the subject *property(ies)* that would result in potential conflicts and who, exercising reasonable judgement, has made an appropriate disclosure as to any relationship, present or within 12 months immediately before, arising from or as a result of any *valuation* instruction(s) confirmed/agreed with any of the interested parties or any involvement/dealings made with the subject *property(ies)* during the course of the said 12 months' period.

Commentary:

Examples of where it will usually be necessary for the Independent Valuer to either make an appropriate disclosure, or where it is considered that any conflict that might arise could not be resolved or managed in a satisfactory way, to decline to act:

- (a) acting for the buyer and seller of a *property* in the same transaction;
- (b) acting for two or more parties competing for an opportunity;
- (c) valuing for a lender where advice is also being provided to the borrower;
- (d) valuing a *property* previously valued for another client; OR
- (e) undertaking a *valuation* for third-party consumption where the Independent Valuer's *firm* has other fee-earning relationships with the client.

5. Joint Valuers

The term 'Joint Valuers' should only be used on those occasions where two (or more) *Valuers* are jointly (and severally) appointed to provide a *valuation*. In such cases a single *valuation report* should be provided carrying the signatures of the Joint *Valuers* together with their names and addresses.

6. Additional Valuers

Where the *properties* to be included in the *Valuer's* instructions include property in a location or of a category in respect of which the *Valuer* does not have the appropriate knowledge and experience, and for which he would not, therefore, be a *Valuer* qualified for the purpose of performing a valuation, then:

- (a) the *Valuer* may employ (with the consent of his client), as a sub-agent, any person whom the *Valuer* regards as having the appropriate knowledge and experience; or
- (b) the *Valuer* may advise the client that an 'Additional *Valuer*' be appointed by the client to value the particular *property*.

Appendix VS 2.1 – Assumptions

1. Introduction

- 1.1 In arriving at *market value*, the *Valuer* has to take into account *assumptions* which the market would generally make under the particular circumstances.
- 1.2 An *assumption* is often linked to a limitation of the extent of the investigations or enquiries that should be undertaken by the *Valuer*. Therefore, *assumptions* that are likely to be included in the *report* must be agreed with the client and included in the *engagement letter*.
- 1.3 Generally speaking, the client and the *Valuer* will reach an agreement on whether the instructions given by the client are acceptable to the *Valuer* prior to the *Valuer's* commencing any work for the client. Sometimes a *Valuer* will be given definite instructions from a client to adopt *assumptions* which the *Valuer* would not normally make, or the client wishes to restrict the scope of the *Valuer's* investigation or impose restrictions on procedures normally adopted by the *Valuer* in his investigation. Should such case happen, it is a Restricted Valuation.
- 1.4 If, after an *inspection* or investigation, the *Valuer* considers that an assumption agreed in advance with the client has proved to be either inappropriate, or it should be changed to be a *special assumption*, it is required under *the Standards* that the revised *assumption* and approach must be discussed and agreed with the client prior to the conclusion of the valuation and the issue of the *report*.
- 1.5 The *Valuer* may be required to justify the use of such *assumptions* upon receipt of request from the HKIS.
- 1.6 The definition of *market value* (see VS 3.2) also incorporates various *assumptions*, so this Appendix deals with the other *assumptions* that *Valuers* may wish to make.

2. Restricted Valuation

- 2.1 Even if a *Member* agrees to accept instructions from a client to adopt *assumptions* which the *Member* would not normally make, or the client imposes restrictions on the normal investigation procedures that he would generally carry out, the *Member* must not express his opinion on the value of the *property* except on a restricted *valuation* basis.

- 2.2 A *Member* must *report* a restricted valuation with appropriate qualifications. The *Member* shall explain and clarify to the client that he has to set out clearly in his *report* the *assumptions* he has made, the sources of information that he has relied upon and the extent to which his normal investigation procedures have been restricted. The *Member* should also point out that this has been done with the agreement of or upon the instructions of the client, and the purpose for which he understands the *valuation* is required. The *Member* must also advise the client the following conditions:
- (a) that the *valuation* is totally dependent on the adequacy and accuracy of the information supplied and/or the *assumptions* made. The *Member* must state that should these information and/or *assumptions* be proved to be incorrect or inadequate, the accuracy of the *valuation* may be affected; and
 - (b) that the *valuation* must be qualified using such words as ‘in the region of’ or ‘in the order of’ to avoid giving the impression that the figure reported is a definitive one.
- 2.3 If a *valuation* prepared on this basis is passed to a *third party* - even though the *Member* may have endeavoured to contract out any responsibility to a *third party* (the Hedley Byrne principle), it may well be that the recipient or reader will not fully appreciate the restricted nature of the *valuation*.
- 2.4 If such a *valuation* becomes generally available to the public, there is always a risk of it being misquoted and misunderstood. This in turn may cast doubt on the professionalism of the *Member* and the *valuation* industry.
- 2.5 *Members* are advised, therefore, wherever possible, not to permit such restricted *valuations* to be used for any purpose other than the purposes originally agreed with the client, and if there is a risk that they may be passed to *third parties*, particularly the general public, consider whether he should decline the instructions from the client, unless the clients agree to give up the restrictions they intend to impose.
- 2.6 It follows that when a *valuation* is required for a purpose with which the general public may be concerned or the *valuation* may be used by a *third party*, *Members* are advised not to provide a restricted *valuation* except in circumstances which can be justified by the *Member*.

- 2.7 *Members* should also bear in mind the requirements of their professional indemnity insurance policies and, in case of doubt, refer to their insurers before accepting their clients' instructions.

