THE HKIS VALUATION STANDARDS ON PROPERTIES

First Edition 2005

THE HONG KONG INSTITUTE OF SURVEYORS
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FOREWORD

The mounting demand for valuation of properties in recent years has given rise to the need for a closer look into standardisation of valuation practices. In line with the long-standing mission of the Hong Kong Institute of Surveyors (HKIS) to make continuous contributions to the industry and the community, the General Practice Division (GPD) of the HKIS proactively initiated discussion last year regarding the establishment of a set of revised property valuation standards. After close to a year of diligent effort, the First Edition of the HKIS Valuation Standards on Properties (the "Standards") endorsed by the General Council of the HKIS was successfully promulgated in December this year.

The objective of the Standards is to provide Members with guidance when preparing property valuation reports. We strongly encourage Members to observe and comply with the Standards, which has been developed to ensure the highest professionalism, integrity, clarity, reliability and impartiality of property valuation practices. More importantly, the promulgation of the Standards will further enhance the professional standards and international status of Hong Kong's valuation profession.

We will regularly review and closely monitor the Standards. Amendments and additions will be issued as and when we consider appropriate, and we welcome any comments on the Standards.

I would like to take this opportunity to express my gratitude to the members of the Property Valuation Standards Panel of the GPD, particularly Messrs Yu Kam-hung, Lawrence Pang and Joseph Ho, and external legal advisor Ms Hui Yung Yung Janet, all of whom made significant contributions to the preparation of the Standards.

TT Cheung
President
The Hong Kong Institute of Surveyors

December 2004

ACKNOWLEDGEMENT

The introduction of the HKIS Valuation Standards on Properties (the “Standards”) reflects a new era for the Hong Kong Institute of Surveyors (“HKIS” or “Institute”) as it enters the 21st century where property markets in both Hong Kong and neighbouring regions have become more sophisticated, and the public demand for a professional valuation service is increasing. At the same time, however, the public is increasingly not only looking at the valuation conclusions, but also paying more regard to the integrity of the profession and the transparency of the valuation process. To emphasise the commitment of the HKIS to promoting the professional status of the Institute, the Standards begins with the Ethics and Qualifications Standard, which sets out the requirements for integrity, impartiality, objectivity, independent judgement and ethical conduct. For the same reason, save for various instances specified in the text, the Standards is mandatory and must be adhered to by all members of the HKIS in conducting their valuation services.

On the other hand, the valuation profession is joining the bandwagon of globalisation. Real estate professionals around the world are more closely connected to each other than ever before. Money to acquire, finance and dispose of land and buildings can come from sources no longer restricted to a particular region, but from countries far away from the region in which a property is located. One important result of this trend is the need for increasingly uniform and reliable valuation standards.

International Valuation Standards (IVS) was initiated and first published in 1985 by the International Valuation Standards Committee (IVSC), of which the HKIS is a Board Member. One of the major developments of the IVSC in 2003 is the promulgation of a common definition of Market Value accepted in most countries worldwide. It is time that the HKIS adopted this universal definition of Market Value. Indeed, from 1 January 2005, the Hong Kong Institute of Certified Public Accountants has mandated that same definition of Market Value will be the only definition recognised by accounting professionals when valuing property assets for financial reporting purposes.

The preparation of these standards has been a monumental undertaking. While we owe an appropriate thank you to the fellow members of the Property Valuation Standards Panel, all of whom unselfishly devoted their time and effort to the writing of the initial drafts, we would like to specifically thank solicitor Ms. Hui Yung Yung Janet for her valuable legal advice on the Standards and Mr. Joseph Ho of the HKIS for his invaluable time in finalising the Standards.

While we look forward to an industry-wide observation of the Standards in the near future, some details may yet be improved. We appreciate your constructive comments and suggestions.

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The Hong Kong Institute of Surveyors

December 2004

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PART A: GENERAL

1. Background to the Issue of the HKIS Valuation Standards on Properties ("the Standards")

1.1 'The Hong Kong Guidance Notes on the Valuation of Property Assets' was first published in 1988 (the "Hong Kong Valuation Guidance Notes") to cater for the growing need of the general public for valuation reports due to the prosperous development of the property market in Hong Kong since 1970s.

1.2 The first issue of the Hong Kong Valuation Guidance Notes comprised 13 guidance notes and 9 background papers.

1.3 In 1997, the HKIS set up a working group to review the Hong Kong Valuation Guidance Notes. In 1999, the new version (i.e. second edition) of the Hong Kong Valuation Guidance Notes was published.

1.4 There have been drastic changes over the recent years in the property market in Hong Kong and the demand for valuation services. In the light of such development, the HKIS has decided to conduct a comprehensive review of the Hong Kong Valuation Guidance Notes with the view to continuing to maintain the best professional standard in preparing Valuation Reports (as defined in the Standards). After review, the HKIS believes that a separate set of valuation standards, which is mandatory in nature, shall be issued so that they can be distinguished from the Hong Kong Valuation Guidance Notes, which is advisory in nature.

1.5 In addition, since the last updating in 1999, there have been significant developments in International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), of which the HKIS is a Board Member. As the HKIS is committed to achieving the objective of securing a set of common valuation standards which is acceptable worldwidely, the HKIS would therefore, wherever possible, adopt the standards set by the IVSC.

1.6 Except for the circumstances as set out in paragraph 3 below or otherwise as stated by the HKIS from time to time, the Standards is mandatory in nature, and shall be applied to the Valuation Reports prepared in respect of all Properties (as defined in the Standards) to be included as part of a company's accounting reports, financial statements, and to be used for any other purposes as referred to in the Standards.

1.7 In preparing the Standards, the HKIS has taken into account opinions and advices given by other professional bodies wherever appropriate, and it intends that the Standards shall be used by the HKIS members (the "Members" and as defined in the Standards) and all persons who deal with the Valuation (as defined in the Standards) of Properties both within Hong Kong and overseas. 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, other than complying with the requirements set out in the Standards, and the Members are advised to take appropriate actions to ensure that they comply with such other requirements or procedures.

1.8 The HKIS would make every effort to ensure that all information contained in the Standards is accurate, update 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 laws, rules and regulations, market practices, government policies, requirements of any other governmental or administrative authorities and any other reasons as the HKIS deems appropriate without further notice. The HKIS will publish updated version of the Standards from time to time and the Members shall obtain updated version of the Standards from the website 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 shall 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.

1.9 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 individual Member to exercise reasonable and professional judgement in preparing the Valuation Reports, including but not limited to incorporating all relevant information into the Reports.

1.10 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 Suite 801, 8th Floor, Jardine House, No.1 Connaught Place, Central, Hong Kong or e-mail it to info@hkis.org.hk.

1.11 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.

2. Principal Objectives of the Standards

2.1 The principal objectives of the Standards are to provide appropriate guidance to the Members so that the Reports prepared by them can achieve the highest standards of professionalism, integrity, clarity, reliability and impartiality, and are prepared in accordance with recognised bases that are appropriate for the purposes of its preparation. The Standards will 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 to deal with any actual or perceived threat against their acting independently and impartially in preparing a Report;

(b) Matters to be considered by the Members when agreeing to the terms and conditions of their engagements for preparing the Reports;

(c) Basis of Valuation (as defined in the Standards), Assumptions (as defined in the Standards) and material considerations that must be taken into account when preparing a Report;

(d) Minimum contents and standards of a Report; and

(e) Matters that should be disclosed if the Reports might be relied upon by Third Parties (as defined in the Standards).

2.2 The Standards also intends to cover the purposes for which Valuations may be required and the 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 standards, commentaries (where appropriate) are provided to supplement the interpretation, application and implementation of the standards. The commentaries, an essential part of the Standards, are mandatory and shall have the force and effect the same as the standards.

2.4 The Standards also consists of Appendices which are intended to provide supplementary information contained in the standards or the commentaries, or provide background information that will assist a Member in understanding the context of the standards that it supports.

2.5 The Standards also contains Guidance Notes ("GN" and as defined in the Standards) to provide guidance and examples to assist the Members in their applying and implementing the Standards. The GN is advisory in nature and not binding on the Members.

2.6 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 Standards is not followed, and the Members' actions are called into question, they will be asked to justify the steps they took, and this may be taken into account in any disciplinary action.

2.7 Members shall note that the definition of "Value" as defined in Valuation Standard 3 is significantly different from the definition set out in the Hong Kong Valuation Guidance Notes. However, such change of definition would not have a material effect on the values that would be assigned to Properties.

2.8 The Standards is not intended to prescribe a Method of Valuation (as defined in the Standards) to be used. A Method of Valuation is a procedure, or series of steps, to arrive at the value specified in the Basis of Valuation. Examples of such methods including but not limited to the market comparison method, the investment method, the residual method, the depreciated replacement cost method, the discounted cash flow method and the profits method. The Members shall exercise reasonable and professional judgement in their using a Method of Valuation and will be held fully responsible for making such choice.

3. Works Exempted from the Standards

3.1 Sometimes clients may require Valuations be done for purpose as required by law or for any other purpose where strict application of the Standards is not suitable. Circumstances where strict applications of the Standards may not be appropriate include but not limited to the following:

3.1.1 Advice required for use in legal proceedings

This refers to 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 Report for use in legal proceedings may have a better chance to withstand cross-examination in court as such Report complies with the minimum professional requirements set out in the Standards.

3.1.2 Acting as arbitrator, independent experts and mediators

When Members act in the capacity as arbitrators, independent experts and mediators for resolution of certain disputes, 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 expert, the Member shall, wherever it is practicable and as long as there is no conflict with their terms of appointment, follow the requirements set out in the Standards. 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 when advice is required on the possible outcome 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 Internal Valuers

This refers to Reports prepared by Internal Valuers (as defined in the Standards) solely for internal use by their own company, where no part of the Report, including the Valuation figure, 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 Agency or investment related work

This refers to circumstances when advice is prepared in the expectation of, or in the course of an instruction to dispose of, or acquire, an interest in Property on the anticipated price achievable or payable, including advice on whether a particular offer shall be made or accepted.

3.2 The exemptions set out in the above paragraph 3.1 shall not apply if the 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 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 HKIS Bye-Law 6.1 requires its Members to observe and comply with all standards approved and published by, or on behalf of, the General Council.

4.3 The Standards is intended to be used and complied with by the Members and others who deal with the Valuation of Properties both within Hong Kong and overseas. 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 lesser standard than the standards 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 Properties located outside Hong Kong and the valuation standards prevailing in the places where the Properties are located are very different from the Standards, the Member shall agree with the client in advance the applicable standards that shall apply to the Report before his proceeding to prepare the Report.

5. Departures from the Standards

5.1 No Departure (as defined in the Standards) is permissible from the requirements that each Report shall clearly and accurately set forth the conclusions of the Valuation, and clearly discloses any Assumptions and limiting conditions which 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 can be met:

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 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 prepared. The adoption of a Special Assumption (as defined in the Standards) 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. 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.

5.6 Lastly, 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.

6. Effective Date, Amendments and Additions

6.1 The Standards comes into effect on 1 January 2005 and shall replace and supersede the *Hong Kong Valuation Guidance Notes* entirely from that date. The Standards shall apply to all Reports issued on or after that date. Where the Standards has been amended, the effective date of the amendments will be shown at the bottom of the page.

6.2 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. Updates to the Standards will be posted on the GPD website at www.hkis.org.hk.

PART B: VALUATION STANDARDS

Valuation Standard 1 – Ethics and Qualifications of a Valuer

VS 1.1 General Ethics of a Valuer in Preparing a Report

1.1.1 A Valuer must develop and communicate his analysis, opinion and advice in a clear manner to the client, and ensure that the analysis, opinion and advice will not be misleading in the market place and will be in compliance with the requirements set out in the Standards.

1.1.2 The HKIS regards the Rules of Conduct (the "Rules") in Part 1 - Standard of Conduct published in the 'HKIS Guidance Notes in connection with Part VI of the Bye-Laws' as mandatory on the Members' undertaking Valuations under the Standards.

1.1.3 When a Valuer renders his services in preparing a Report, he must:

(a) not engage in any conduct that will prejudice or cause negative impact on his professionalism, the reputation of the HKIS, the surveying profession and any other Member;

(b) not develop, use or permit others to use, for any purpose any Report which the Valuer knows, or is aware of, is misleading or fraudulent;

(c) carry out appropriate research and investigation before he provides his opinion, advice or recommendation to his client;

(d) make reasonable and diligent efforts to avoid making any material misrepresentation;

(e) prepare a Report that is generally acceptable to a Reasonable Valuer;

(f) maintain appropriate records to support the reasonableness of his opinion, advice or recommendation;

(g) not disclose the results of an assignment to anyone but the client, except with the client's prior permission; and

(h) reveal any conflict of interest or potential conflict of interest to his client and if the client agrees the Valuer to accept the assignment despite the fact that there is a conflict or potential conflict of interest, records client's agreement in writing.

VS 1.2 Qualifications of the Valuer

Each Valuation to which the Standards applies must be prepared by, or under the supervision of, an appropriately qualified Member who is a Valuer as defined in Appendix VS 1.1 or VS 7.2; and who must have sufficient knowledge of the category of the Properties being valued, the skills and understanding necessary in order to undertake the Valuation competently, independently and impartially and accepts full responsibility for it.

VS 1.3 Independence and Impartiality

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

1.3.2 Member is required to, in valuing any Property or performing any Valuation-related assignment in the capacity of a Valuer, exercise independent judgment and not be subject to direction or influence from any person. Also, a Member, together with his associates, must not have any material links (either directly or indirectly) with the 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.

1.3.3 Rules 1.3.1 and 1.3.2 of the Rules will provide guidance on dealing with conflicts of interest, impartiality and independence.

Valuation Standard 2 – Engagement

VS 2.1 Confirmation of Engagement

A Member shall always agree with or confirm the instructions with the client by signing an Engagement Letter (as defined in the Standards). Appendix VS 2.1 contains guidelines of the Terms of Engagement (as defined in the Standards). 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.

VS 2.2 Contents of the Engagement Letter

An Engagement Letter is a formal contract between the Valuer and 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 date of Valuation;
(g) the status of the Valuer and disclosure of any conflicts of interest or previous involvement;
(h) the currency in which Valuation is to be expressed;
(i) any Assumptions (Appendix VS 2.2 contains a guideline on Assumptions), Special Assumptions, reservations, any special instructions or Departures;
(j) the extent of the Valuer’s investigations;
(k) the nature and source of information to be relied upon by the Valuer;
(l) any consent granted to, or restrictions imposed on, the publication of the Report or any information in the Report;
(m) any limits or exclusion of liability to parties other than the client;
(n) confirmation that the Valuation will be undertaken in accordance with the requirements set out in the Standards;
(o) the basis on which the fee will be calculated; and
(p) other standardised terms and conditions.

VS 2.3 Special Assumptions

2.3.1 Special Assumptions are hypothesis – either supposed or unconfirmed – which, if not true, can substantially alter the Valuer's opinion, advice or Valuation conclusion.

2.3.2 Where Special Assumptions are necessary in order to adequately provide the client with the Valuation required, these must be agreed and confirmed in writing to 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.

VS 2.4 Marketing Constraints and Forced Sales

2.4.1 Both the client and the Valuer shall agree to the actual or anticipated marketing constraint as set out in the Engagement Letter.

2.4.2 The term 'forced sale value' shall not be used in any Report since the basis of such value is no longer supported by the HKIS.

VS 2.5 Restricted Information

Prior to the issuance of a Report, a Valuer shall be confirmed in writing with the client the basis of restricted information; its nature and its possible implications upon the Valuation Report.

VS 2.6 Review of Valuations

2.6.1 Unless a Member is in control of all the particulars and information on which another Valuer based on, otherwise, a Member shall not make a negative comment of a Valuation prepared by that Valuer for the purpose of disclosure or publication.

2.6.2 A Member may, however, in the following circumstances, provide a Valuation review of a Valuation prepared by another Valuer that is intended for disclosure or publication purpose:

(a) where a Valuation is required to be carried out by a Director (as defined in the Standards) of the client or an Internal Valuer, as the client requires support or comment from an External or Independent Valuer on the Valuation which has been prepared;

(b) where a Member is asked to co-ordinate the work of other Valuers, and to express support for those others' approach and/or level of value they have adopted; or

(c) where a Member 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.

2.6.3 The Standards does not apply to Reports prepared for any legal proceedings which a Valuer may be required to comment on the Report prepared by another Valuer representing or acting on behalf of the opposing party in the legal proceedings.

2.6.4 The Standards also does not apply to situations when the HKIS has received complaints from the public or has, for other reasons, commenced disciplinary investigation to determine whether a Report prepared by a Member complies with the requirements set out in the Standards.

Valuation Standard 3 – Market Value and other Basis of Valuation

VS 3.1 Market Value

3.1.1 One of the important objectives of the Standards is to provide a common definition of *Market Value*. The Standards would also provide explanation on the general criteria relating to this definition and its application in the Valuation of Property when the purpose and intended use of the Valuation calls for estimation of *Market Value*.

3.1.2 Valuations made based on the *Market Value* shall adopt the following definition and interpretive commentaries as settled by the IVSC.

Definition:

Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Interpretive Commentaries, as published in the IVS Standard 1:

1 The term *property* is used because the focus of the Standards is the valuation of property. Each element of the definition has its own conceptual framework.

1.1 ***'The estimated amount ...'***
Refers to a price expressed in terms of money (normally in the local currency) payable for the property in an arm's-length market transaction. *Market Value* is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the *Market Value* definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of *Special Value* (as defined in the Standards).

1.2 ***'... a property should exchange ...'***
Refers to the fact that the value of a property is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the *Market Value* definition should be completed on the date of valuation.

1.3 ***'... on the date of valuation ...'***

Requires that the estimated *Market Value* is time-specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.

1.4 ***'... between a willing buyer ...'***

Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute 'the market'. A Valuer must not make unrealistic assumptions about market conditions or assume a level of *Market Value* above that which is reasonably obtainable.

1.5 ***'... a willing seller ...'***

Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price may be. The factual circumstances of the actual property owner are not a part of this consideration because the 'willing seller' is a hypothetical owner.

1.6 ***'... in an arm's-length transaction ...'***

Is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of *Special Value*. The *Market Value* transaction is presumed to be between unrelated parties each acting independently.

1.7 ***'... after proper marketing ...'***

Means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the *Market Value* definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.

1.8 ***'... wherein the parties had each acted knowledgeably, prudently ...'***
Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.

1.9 ***'... and without compulsion.'***
Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

2 *Market Value* is understood as the value of a Property estimated without regard to costs of sale or purchase, and without offset for any associated 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 date of Valuation; rather, *Market Value* is an estimate of the 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 instructions and the Valuation Report.

2. The concept of Market Value presumes a price is negotiated in an open and competitive market, a circumstance that occasionally gives rise to the use of the adjective *open* before the words *Market Value*. The words *open* and *competitive* have no absolute meaning. The market for one Property could be an international market or a local market. The market could consist of numerous buyers and sellers, or could be one characterised by a limited

number of participants. The market in which the Property is exposed for sale is not a definitionally restrictive or constricted market. Stated conversely, the omission of the word *open* does not indicate that a transaction would be private or closed.

3. Market Valuations are generally based on information regarding comparable Properties. 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 question but should consider all pertinent market evidence, trends, comparable transactions, and other information. Where market data are limited, or essentially non-existent (as for example with certain Specialised Properties (as defined in the Standards)), 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. It may be necessary for the Valuer to include a statement in his Report, outlining what is being valued and Assumptions (and Special Assumptions, if any) made in the Valuation.

5. The definition of Market Value may be required in Valuation. If this is the case, it may be appropriate to include a statement explaining the basis. However, if the interest being valued is incompetent of being disposed of in the market, Market Value may not be an appropriate basis to use.

6. Because changing conditions are characteristic of markets, Valuers must consider whether available data reflect and meet the criteria for *Market Value*.

   6.1 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.

   6.2 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 all pertinent 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 asset disposals. Sales, however, may take place without proper marketing or a reasonable marketing period.

The Valuer 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.

7. When assessing the Market Value of a Property, any encumbrances such as mortgage, debenture charged against it should be disregarded.

8. Market Value will include elements of value, usually known as ‘hope value’, which refers to the situation that one has an expectation that the circumstances affecting the Property may have a positive change in the future. Examples include:

   - the prospect of having re-development opportunity where in fact there is no current permission of re-development granted for that Property;

   - the realisation of ‘marriage value’ arising from merger with another Property or interests within the same Property.

9. However, the amount of hope value must be limited to the extent that it would be reflected in offers made by prospective purchasers in the general market.

10. There are certain types of Properties that have been designed to be sold in the open market as fully operational business units for a strictly limited use and at prices based upon trading potential. Examples of such properties are hotels, bars, restaurants, movie theatres or cinemas, gasoline or petrol stations. The prices of these 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 Property to be sold as a fully-equipped, trading entity, or on some other Assumptions.

11. The Valuer, when conducting valuation on Plant & Machinery, should refer to ‘The HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises’ for further guidance.

VS 3.2 Depreciated Replacement Cost

Valuations based on the Depreciated Replacement Cost (DRC) shall adopt the definition settled by the IVSC where the term property is used in the Standards.

Definition:

The DRC is the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

Commentaries:

1. International Financial Reporting Standards specify that the DRC may be used in financial reporting as a substitute for the *Market Value* of *specialised market* Properties, due to the lack of market comparables available. The DRC is known as a basis only for this financial reporting.

2. For other purposes, the DRC may be used as a method to support a Valuation reported on another basis. An example is *value in use* which refers to the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The value a specific Property has for a specific use to a specific user is a value specific to a specific user and therefore, not market related.

3. In applying the DRC as a Basis of Valuation or as a Method of Valuation of Specialised Property, it is based on an estimate of the Market Value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

4. The DRC is not the only basis be adopted for a Property having the characteristics of a Specialised Property, market comparison method can also be used. However, when using the DRC, the Valuer should include a statement in the Report that the Property is valued by reference to the DRC as it is not feasible to prepare an accurate Valuation using market comparison.

5. The DRC 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). This assumption is rebuttable. If the Directors of the entity believe that the potential profitability of the business is insufficient to carry the DRC estimate, they may adopt a lower figure in their accounts in recognition of additional economic obsolescence. The written-down estimate is entity-specific and may represent the Property's value in use. It is incumbent upon the Valuer, however, to state whether the Valuation arrived at by the DRC was subject to the Directors' test of potential profitability.

6. If the Directors of a company cannot accept this qualification, they should assess the economic value of the land and buildings and associated Plant & Machinery separately. Therefore, if the Directors of the company really have to assess and adopt an economic value of the land and buildings in the financial accounts, the Valuer may be asked to express an opinion as to the Market Value of the land and buildings so that the Directors can assess the amount of deduction that should be made to cover the sale expenses in order to arrive at the net realisable value of the land and buildings.

7. When reporting a Valuation on the DRC basis, the Valuer must state in the

Report whether the Market Value of the Property upon the cessation of the existing business is likely to be significantly higher or lower.

8. Valuation for DRC should be in accordance with International Valuation Guidance Note No. 8 published by the IVSC.

VS 3.3 Market Rent

3.3.1 Valuations based on Market Rent (MR) shall adopt the definition settled by the IVSC.

Definition:

The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion.

3.3.2 The definition of Market Rent is similar to the definition of the Market Value (MV) and it includes an additional Assumption that the letting of a Property will be based on 'appropriate lease terms'. This definition must be applied in accordance with the interpretive Commentaries of Market Value at VS 3.1 of the Standards, together with the following supplementary commentaries:

1 ***'... willing lessor and willing lessee ...'***
The change in the description of the parties simply reflects the nature of the transaction. The willing lessor is possessed with the same characteristics as the willing seller, and the willing lessee with the same characteristics as the willing buyer, save that the word 'price' in the interpretive Commentaries to MV should be changed to 'rent', the word 'sell' changed to 'let' and the word 'buy' changed to 'lease'.

2. ***'... appropriate lease terms ...'***
MR will vary significantly according to the terms of the assumed lease contract. The appropriate lease terms will normally reflect current practice in the market in which the 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 impact on MR. In certain Regions (as defined in the Standards), statutory factors may either restrict the terms that may be agreed, or influence the impact of terms in the contract. These need to be taken into account where appropriate. Valuers must therefore take care to set out clearly the principal lease terms that are assumed when providing MR.

Valuation Standard 4 – Inspections and Investigations

VS 4.1 Valuers must always carry out Inspections (as defined in the Standards) and Investigations to the extent necessary to produce a Valuation which is professionally adequate for its purpose. In this regard, the circumstances of the case and whether and when the Valuer has inspected the Property previously should also be considered. The Inspection of the subject Property is mandatory, unless the Valuer can provide a reasonable justification for his not carrying out an Inspection through making a proper disclosure of Departure from the Standards and any Special Assumption as appropriate.

VS 4.2 The Inspection of comparables is also expected under normal circumstances.

VS 4.3 A revaluation without a re-inspection of Property previously valued by the Member, or Firm (as defined in the Standards), must not be undertaken unless the Member is satisfied 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.

VS 4.4 For the avoidance of doubt, the Inspection required is not a building Survey (as defined in the Standards).

Commentaries:

1. The professional judgment of a Valuer will determine the level of investigation that is necessary.

2. A Valuer is not normally expected to undertake detailed investigation or reach definite conclusions on all matters that could have impact on the market's perception of the value of the Property. However, he should disclose all the limitations he has encountered clearly to the client when agreeing to the Terms of Engagement.

3. A Valuer may make an Assumption upon client's request. However, if the prospective purchaser would not make the same Assumption as previously suggested by the client, then the Valuer can treat this Assumption as Special Assumption.

4. Clients may need the Valuations of their Properties be updated at regular intervals. Re-inspection on every occasion may be unnecessary if a Valuer or his firm has previously inspected the Properties, and the clients have confirmed that there have been no material changes to the physical attributes of the Properties and the surrounding areas in which the Properties are located. However, the Valuer shall record this Assumption clearly in the Engagement Letter.

5. 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.

Valuation Standard 5 – Verification of Information

VS 5.1 The Valuer must take reasonable steps to verify that the information relied upon by him are reliable and appropriate in the preparation of the Valuation and, if not already agreed, clarify with the client any necessary Assumptions that will be relied upon by him.

Commentaries:

1. It is a generally accepted practice that a Valuer may rely on information supplied by the client or his representative to prepare his Valuation and/or Report with an Assumption that such information is accurate and complete. The Valuer will also obtain information from his carrying out an Inspection to the Property or from other sources, and the Valuer may also have to verify the accuracy and completeness of such information.

2. The above general practice does not absolve the Valuer from the responsibility for taking reasonable steps to verify the accuracy and completeness of the information relied upon by him in the preparation of the Valuation and clarify with the client any necessary Assumptions that will be relied upon by him, if such Assumptions have not been already agreed to by the client.

3. When preparing a Valuation for Financial Statements (as defined in the Standards), the Valuer should be prepared to discuss with the client's auditor and other professional advisors.

4. The Valuer must verify with the client's legal advisers concerning the legal opinion before the publication of the Valuation. In fact, a Valuer should hold on to the procedures which the legal profession should follow in verifying information supplied to by the Valuer.

5. The Valuer must judge in each case the extent to which he is justified in relying on information supplied to him, or he has no option but to do so.

6. The Valuer has a responsibility to state clearly the information on which he relies on and the sources of it and (where relevant) the date of his obtaining such information, and whether and what sort of information has been verified by him.

Valuation Standard 6 – Valuation Reports

VS 6.l Minimum Contents of Valuation Reports

6.1.1 The Valuation Report must cover all the matters agreed between the client and the Valuer in the Engagement Letter. It must set out clearly the Basis of Valuation, the purpose of the Valuation, any Assumptions or limiting conditions underlying the Valuation and the value conclusion. The analytical processes and empirical data used to arrive at the value conclusion may also be included in the Valuation Report to demonstrate the procedures and evidence that the Valuer has used to come up with the Valuation.

6.1.2 The format and detail of the Report is a matter at 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 of Valuation;
(f) the date of Valuation;
(g) where appropriate and applicable, the status of the Valuer and disclosure of any previous involvement;
(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 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) the opinions of value in figures and words;
(p) the name and the signature of the Valuer; and
(q) the date of the Report.

6.1.3 The reporting requirements addressed in the Standards should apply to all types of Valuation Reports.

VS 6.2 Description of a Report

6.2.1 A *Valuation Report* is a document that records the instructions for the assignment, the basis and purpose of the Valuation, and the results of the analysis that lead to the opinion of value. A Valuation Report may also explain the analytical processes undertaken in carrying out the Valuation, and present meaningful information used in the analysis. 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 legal requirements, the type of the Property, and the nature and complexity of the assignment.

6.2.2 The terms, *Valuation Certificate* and *Valuation Report*, may be used interchangeably. A *Valuation Certificate* is usually prepared in the form of a short letter, though it may also be prepared in the form of a detailed report. The form which a Valuation Certificate is to be prepared in each case would be affected by the nature of the instructions given to the Valuer and the use which the client proposes to make out of the Valuation. The extent of the detail to be provided in the Valuation Certificate will also depend on the client's requirements and whether or not it will be accompanied or followed by a further report(s) on the Property or Properties set out in the Valuation Certificate.

6.2.3 Appendix VS 6.1 contains further information on the minimum contents to be included in a *Valuation Certificate* and Appendix VS 6.2 shows examples of acceptable published references to Valuation Reports.

VS 6.3 Valuation Letter

6.3.1 In some cases, the Valuer may be required to produce a valuation letter prior to the issuance of a Valuation Report to assist his clients for their immediate need. For example, during negotiation process, the clients may need to have a Valuation for discussion among the management personnel and/or their professional adviser(s).

6.3.2 Provided that the valuation letter contains the following two clauses and the minimum information set out in VS 6.3.3 of the Standards, the valuation letter can be issued to the client(s). They are:

(a) the letter is prepared in advance and a detailed Valuation Report would be followed, and

(b) the letter is a restricted document which should be used by the client(s) for their internal management reference purpose and not for any other purpose, in particular for the purpose of public circulation.

6.3.3 The valuation letter must 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 of Valuation;
(f) the date of Valuation;
(g) the currency in which Valuation is to be expressed;
(h) any Assumptions, Special Assumptions, reservations, any special instructions or Departures;
(i) the extent of the Valuer's investigations;
(j) the nature and source of information to be relied on by the Valuer;
(k) the opinions of value in figures and words;
(l) the name and the signature of the Valuer; and
(m) the date of the valuation letter.

VS 6.4 Negative Values

6.4.1 Negative values may arise on leasehold interests where there is an income shortfall, or the Market Rent is less than the reserved rent and/or there are onerous covenants on the lessee's part.

6.4.2 Properties that are not considered as assets, but liabilities, are said to have a negative value.

6.4.3 It is not correct in such cases to report a 'nil' figure of value. The negative figure should be reported separately and not set off against positive values on other property.

VS 6.5 Properties Located in more than one Region

Where the Valuation comprises various Properties in different locations, the Report must list out the Properties located within each Region individually and the Valuation must be stated in the currencies as agreed with the client.

VS 6.6 Incorporation of other Valuations

The Valuer must confirm the Valuations prepared by another Valuer or firm are in accordance with the Standards before incorporating into the Report.

VS 6.7 Publication Statement

If the client wishes a Valuer to prepare a Valuation Report for the purpose of making a published reference to it, the Valuer must not issue a letter of consent (the "Letter of Consent") for the Valuation Report, or allow any part thereof be referred to, unless he is satisfied that such reference is accurate and would not be 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 published is accurate.

2. The Valuer should read the whole of document in which the Report would be published on or 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 which the Report may be published on or Report would be mentioned as a reference on the document must be provided to him before publication, and he should attach that final proof of the document to the Letter of Consent, or make a reference to the specific final proof (such as date and proof number / version number) of document which he has reviewed in such Letter of Consent. The Valuer should resist the pressure or request made by any other parties asking him to sign or delegating his power to sign, the Letter of Consent against his wish.

VS 6.8 Non-Market Value

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 (as defined in the Standards) or Worth (as defined in the Standards). If the Valuer is required to provide an assessment of Investment Value or Worth, he must not describe it as a Valuation, but should make a clear statement that the figure is not a Market Value, but an Investment Value or Worth.

Valuation Standard 7 – Property, Plant and Equipment Valuations for Financial Statements

VS 7.1 The Basis of Valuation

Valuations for inclusion in Financial Statements prepared in accordance with Hong Kong Accounting Standards ("HKAS") published by the Hong Kong Institute of Certified Public Accountants shall be based on either:

(a) Owner-occupied Properties (land and buildings)
Fair Value - as stipulated in Paragraph 32 of HKAS 16 "Property, Plant and Equipment".

(b) Investment Properties (land and/or buildings)
Fair Value - as stipulated in Paragraph 33 of HKAS 40 "Investment Property".

(c) For Plant and Equipment
Fair Value – as stipulated in Paragraphs 32 of HKAS 16 "Property, Plant and Equipment" which is referred to as the Market Value of the Plant and Equipment.

Commentaries:

1. The term "Fair Value" is defined by the HKAS as "the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction" and should reflect the market conditions at the balance sheet. The Institute considered that this is the same as Market Value as defined in VS 3.1 of the Standards.

2. While different professions have different interpretations for the term "Plant and Equipment", the Institute has adopted the definition set out in the IVS, that is, "assets intended for use on a continuing basis in the activities of an enterprise/entity including specialised, non-permanent buildings; machinery (individual machines or collections of machines, trade fixtures, and leasehold improvements); and other categories of assets, suitably identified."

3. Under Paragraph 33 of HKAS 16 "Property, Plant and Equipment", when there is no market-based evidence of Fair Value because of the specialised nature of the appraised Property, Plant and Equipment and it is highly unlikely that the item would be sold, except as part of a continuing business corporation, the estimated Fair Value may be reached by using an income or a depreciated replacement cost approach.

4. Members are encouraged to obtain copies of HKAS 16 and HKAS 40 from the Hong Kong Institute of Certified Public Accountants to have a better understanding on the Basis of Valuation before performing appraisal engagements for Financial Statements purpose.

VS 7.2 Qualified Valuer

The HKAS requires that appraisal made for use as part of the Financial Statements should be conducted by a professionally qualified Valuer. HKAS 40 further considers that a professionally qualified Valuer should be a person holding a recognised professional qualification in valuing Properties and having recent post-qualification experience in valuing Properties in the location and in the category of the Properties concerned. Valuations for Financial Statements for companies incorporated in Hong Kong are governed by the Hong Kong Financial Reporting Standards published by the Hong Kong Institute of Certified Public Accountants. The Institute considers that members from General Practice Division possess the requisite qualification to perform the relevant appraisal for they are qualified to register and registered under the Surveyors Registration Ordinance (Chapter 417, Laws of Hong Kong).

VS 7.3 Date of Valuation

Valuations for inclusion in the Financial Statements must be dated as of the date of the Valuation Report, or at a date earlier than the date of the Valuation Report.

VS 7.4 Alternative Use Value

Basic accounting concepts postulate that the accounts to be prepared are based on the understanding that the enterprise will continue its operation in the foreseeable future and, in particular, that the profit and loss account and balance-sheet contain no information which shows that the enterprise has any intention or need to liquidate or curtail significantly the scale of its operation. Alternative use values of assets without which the business could not function, therefore, have no relevance.

VS 7.5 Apportionment of Value between Land and Building

It is required under HKAS that the Valuer should apportion the reported values 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 Property, the value of the land for its existing use as of the date of Valuation. 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 date of Valuation and deducting this from the cost or Valuation of the whole 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 as set out below, in order to reflect the current value of the Property to the business.

The term gross replacement cost and net replacement cost are defined as follows:

(a) Gross Replacement Cost — the estimated cost of erecting the building or a modern substitute building having the same area as the existing building at prices current at the relevant date. This figure may include fees and finance charges payable during the construction period and other associated expenses directly related to the construction of the building.

(b) Net Replacement Cost — the gross replacement cost reduced to reflect the physical and functional obsolescence and environmental factors so as to arrive at the value of the building to the business.

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

VS 7.6 Post Balance Sheet Events

The Valuer should draw the attention of the Directors of the client to any matters of which he becomes aware of and which are likely to be included as part of the material post balance sheet events, whether they would be the adjusting or non-adjusting events (as explained below), in order that the Directors can ensure that these factors are included in financial statements or be referred to in notes of the financial statements as may be appropriate.

HKAS 10 “Events after the Balance Sheet Date” refers to events which occur between the balance sheet date and the date on which the Financial Statements are approved by the Directors 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”:

(a) “Adjusting events” are those which provide additional evidence relating to the conditions which are existed at the balance sheet date and which should be included in the Financial Statements, e.g. the payment or receipt of the proceeds of sale of fixed assets which are purchased or sold before the end of the year or there has been a change of the purchase price of the fixed assets after the date of the balance sheet.

(b) “Non-adjusting events” are those which occur after the date of balance sheet and which have not been anticipated at the time when the balance sheet is being prepared, e.g. purchases and sales of fixed assets, catastrophes such as fire or flood, or changes in the value of property resulting from unforeseen circumstances.

Events which occur after the date on which Financial Statements are approved by the Directors do not fall within the scope of HKAS 10, but the Directors should be advised that, if such events are material, they should announce and publish the relevant information so that the users of the financial statements would not be misled.

VS 7.7 Inter-company Leases

Where a Property is the subject of a lease or tenancy agreement between two companies in the same group, and is concluded on arm’s-length terms and in accordance with normal commercial practice, it is acceptable to take into account of the existence of that agreement for the purposes of financial reporting within the subsidiary companies. However, on consolidating the results and balance sheets of those companies into the companies’ group accounts, the existence of the lease must be disregarded, and any Property occupied by a company under an inter-company leasing arrangement within a group should be valued as owner-occupied Property.

Valuation Standard 8 – Valuation of Properties for Mortgage Purposes

VS 8.1 Except as otherwise stated, Valuations for mortgage purposes shall be prepared in accordance with the Guidance Notes on Valuations of Properties for Mortgage Purpose published by the HKIS.

VS 8.2 When a 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.

VS 8.3 It would be usual for the Valuer to be asked to express an opinion as to the suitability of the Property as security for a loan. It is, however, a matter for the lender to assess the risk involved and express his 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.

VS 8.4 It is not normally appropriate to value 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, the Valuer should ascertain from the client, as a condition of providing such a Valuation, the period of time in which a sale is desired and whether or not such period is to include completion of the legal formalities. Under such circumstances, it is prudent for Valuers to include a *Market Value* estimate or other appropriate information as to the extent to which a *Non-Market Value* estimate may differ from the *Market Value.*

PART C: GUIDANCE NOTES

GN 1 Principal matters that have to be included in a Property Valuation

1. Without prejudice to the minimum contents of information that have to be included in a Valuation Report as described in Valuation Standard 6, to assist Members, the following are the principal matters which a Valuer should consider in his procedures for a Property Valuation. It is recognised that each Valuation may call for additional matters to be considered whilst some of those listed in the following paragraphs may not be relevant.

2. Referencing

2.1 Characteristics of locality, availability of communications and facilities affecting value.

2.2 Age, description, use, accommodation, construction of any building, its installations, amenities and services.

2.3 Dimensions and areas of the land and buildings.

2.4 State of repair and condition.

2.5 Site suitability.

3. Nature of interest

3.1 Tenure with reference to relevant restrictions, terms of leases, easements, rights of ways, wayleaves and encumbrances.

3.2 Details of lettings and other occupations (i.e. the Valuer should note on inspection any occupations other than by the named lessees).

4. Planning and statutory requirements

4.1 Town planning, environmental, highways and like considerations.

4.2 Contravention of any statutory requirements.

4.3 Outstanding statutory notices.

5. Other Factors

5.1 Rating assessments and other outgoings.

5.2 Any Plant and Equipment which would normally form an integral part of the building and, therefore, is included in the Valuation.

5.3 Fixtures, fittings and improvements.

5.4 Presence of deleterious materials.

5.5 Allowances for disrepair.

5.6 Any development potential.

6. Market Analysis

6.1 Details of comparable market transactions for either existing use or alternative use(s).

6.2 Market conditions and trends.

6.3 If valued on a depreciated replacement cost basis the appropriate factors used.

7. Verification of Information

The Valuer may be supplied by the client or his representative with information upon the accuracy and completeness of which the Valuer relies in producing his Valuation and/or Report. The Valuer will also obtain information from his inspection, or other sources, which may require verification as to its accuracy and completeness. The Valuer must judge in each case the extent to which he is justified in relying upon information supplied, or has no option but to do so. The Valuer has a responsibility to state clearly the information on which he is relying, the sources of it, and (where relevant) its date. Appendix GN 1.1 contains verification of information for Valuations required for different purposes.

8. The Valuation Report

8.1 The presentation of the Valuation Report will have regard to the need for any special format (e.g. Companies Ordinance) but will usually include a summary of the matters referred to in paragraphs 2 to 5 above together with a reference to:

8.1.1 The purpose of Valuation;

8.1.2 The Basis of Valuation;

8.1.3 The date of Valuation;

8.1.4 With vacant possession (whole or in part) or not; and

8.1.5 Any Special Assumptions.

8.1.6 Caveats as to:

(a) Structure and the presence of deleterious materials (exclusion of a structural survey);

(b) Site conditions;

(c) Non-publication;

(d) Responsibility to Third Parties;

(e) The verification and sources of information; and

(f) The value in figures and words.

PART D: GLOSSARY OF TERMS USED IN THE STANDARDS AND VALUATION REPORTS

1. The HKIS believes that the Member who prepare a Report shall possess specialised skills, experience, expertise and knowledge. Also, Members shall communicate the procedures to value and conclusion, in a manner that is clear and not misleading, to the clients. For sake of consistency and better communication, it is advisable for the valuation profession to use commonly used definitions, which meanings have been established clearly and consistently, to be applied throughout the profession.

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 and the RICS, in this glossary and highly recommends the Members to adopt such definitions in the Reports.

3. If any of the Members wishes to adopt any definitions that materially depart from the definitions set out in this glossary, it is recommended that the Member sets out his own definitions clearly in the Engagement Letter to avoid 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 **Valuation**.
Assumption	A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a Valuation that, by agreement, need not be verified by the member as part of the Valuation process. Typically, Assumptions are made where specific investigation by the valuer 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 Property within a given set of parameters.
Departure	Circumstances where the member considers that it is inappropriate, or impractical, for the Valuation to be made wholly in accordance with a Valuation Standard in the Standards.
Directors	This individual(s) responsible for the management of a company, firm 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 directors.
Engagement Letter	Written confirmation of the conditions that either the member proposes, or the member and client have agreed shall apply to the undertaking and reporting of Valuation 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 accounting standards and the law.
Firm	The firm or organisation for which the Member works, or through which the Member trades.
Forced Sales	This refers to occasions when a vendor is under heavy pressure to sell the Property within a specific time limit so that the Vendor can use the proceeds to meet his urgent requirements. The fact that a sale is 'forced' means that the vendor sells the Property as a result of certain external legal or commercial factors and the time constraint is outside the control of the vendor.
Guidance Notes	Guidance Notes provide further material and information on good Valuation practice appropriate for particular types of circumstances. Where procedures are recommended for specific professional tasks they are intended to embody the 'best practice', and are procedures which, in the opinion of the HKIS, Members should normally adopt in order to demonstrate the required level of professional competence.
Inspection	A visit to a Property to examine it and obtain relevant information, in order to express a professional opinion of its value. Unless otherwise agreed with the client the term assumes that the Member will inspect the Property both internally and externally, wherever access is possible. (See also **Survey**).
(the) Institute/HKIS	The Hong Kong Institute of Surveyors incorporated under the Hong Kong Institute of Surveyors Ordinance (Chapter 1148 – Laws of Hong Kong).

International Financial Reporting Standards	Standards set by the International Accounting Standards Board with the objective of achieving uniformity in accounting principles. The standards is developed within a conceptual framework so that elements of Financial Statements are identified and treated in a manner that is universally applicable. The standards was previously known as International Accounting Standards (IAS).
Investment Value	See **Worth**.
Machinery & Equipment (or Plant & Equipment)	See **Plant & Machinery**.
Method of Valuation	A method of Valuation is a procedure, or series of steps, to arrive at the value specified in the Basis of Valuation. Examples of such methods include market comparison method, the investment method, the residual method, discounted cash flow method and the profits method.
Member	A member from the professional Grade of the Hong Kong Institute of Surveyors and referred to in the Constitution of the Hong Kong Institute of Surveyors as Corporate Member.
Plant & Machinery	In some Regions, this is referred to as machinery & equipment or plant & equipment. It includes: building services installations which are normally included in Valuations of land and buildings; process plant, machinery and equipment which may have been installed wholly in connection with the occupier's industrial or commercial processes, together with furniture and furnishings, tenant's fixtures and fittings, vehicles and loose tools. These items may have to be valued separately for balance sheet and other purposes.
Portfolio	A collection or aggregation of Properties held by a single entity.
Property	Land or buildings, whether the interest is a freehold or leasehold interest, and includes carparks and assets incidental to the ownership or real estate (e.g. fittings, fixtures, etc).
Reasonable Valuer	A reasonable valuer 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.
Region	An organised political community under one government. For the purpose of the Standards the term 'Region' includes 'Country'.
Replacement Cost New	The current cost of a similar new item having the nearest equivalent utility as the item being appraised.
Report/Valuation Report	The written means, including material transmitted by electronic means, of providing the client with the Valuation or Appraisal.
Reproduction Cost New	The current cost of an identical new item.
Special Assumption	An Assumption that either: a) requires the Valuation to be based on facts that differ materially from those that exist at the date of Valuation; or b) is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of Valuation, having regard to prevailing market circumstances.

Special Value	A term relating to an extraordinary element of value over and above Market Value. Special Value could arise, for example, from the physical, functional, or economic association of a Property with some other Property, such as the adjoining Property. It is an increment of value which could be applicable to a particular owner or user, or prospective owner or user, of the Property rather than to the market at large; that is, to a purchaser with a special interest. The additional value resulting from the merger of two or more interests in Property, sometimes known as marriage value, is a specific example of Special Value. Special Value could also be associated with elements of going concern value and with Investment Value or Worth.
Specialised Properties	Certain types of Properties 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.
(The) Standards	The HKIS Valuation Standards on Properties.
Survey	An inspection of a 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.
Terms of Engagement	See **Engagement Letter**.
Third Party	Any party, other than the client, who may have an interest in the Valuation or its outcome.
Valuation Method	See **Method of Valuation**.
Valuation	A member's opinion of the value of a specified interest or interests in a Property, at the date of Valuation, 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.
Valuation Standard (VS)	A professional standard which apply mandatorily to Members when providing Valuation Reports of Properties in all Regions, for all purposes to which this Standards applies.
Valuer	A member from the General Practice Division of the Hong Kong Institute of Surveyors who complies with the requirements of the Standards.
Worth	The value of Property to a particular investor, or class of investors, for identified investment objectives. In this context an investor includes an owner-occupier.

PART E: APPENDICES TO VALUATION STANDARDS AND GUIDANCE NOTES

Appendix VS 1.1 – Types of Valuer

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. Qualified Valuer

A 'Qualified Valuer' is a Registered Professional Surveyor (General Practice) registered under Surveyors Registration Ordinance (Cap.417) or a General Practice Surveyor of the HKIS, with a minimum of 2 years post-qualification experience in valuing land and buildings in Hong Kong, and with knowledge of valuing land in the location and of the category of the Property.

3. Internal Valuer

An 'Internal Valuer' is a Qualified Valuer who is a Director (or equivalent status thereto) or an employee and who 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.

4. External Valuer

An 'External Valuer' is a Qualified 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 or group has a significant financial interest in the Valuer's firm or company. 'Company' includes any other form of organisation, e.g. a trust.

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 land 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 'Qualified Valuer' 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 Qualified Valuer' be appointed by the client to value the particular Property.

7. Independent Valuer

'Independent Valuer' is an External Valuer who has no other recent or foreseeable potential fee earning relationship concerning the subject Property apart from the Valuation fee and who, exercising reasonable judgment, has disclosed any past or present relationship with any of the interested parties or any previous involvement with the subject Property.

8. Company and Financial Accounts

Members who meet the criteria set forth under the definition of 'Qualified Valuers' may qualify to carry out Valuations for use in company and financial accounting/auditing in accordance with guidelines of the Hong Kong Institute of Certified Public Accountants.

9. General

A Valuation Report should incorporate a statement to the effect that the Valuer conforms to the particular requirements (such as the Listing Rules of Hong Kong, the Standards, etc.) in the course of the Valuation.

Appendix VS 2.1 – Settling the Terms of Engagement

1. A Valuer and his client must agree on the context and scope of the Valuation. The definition of the assignment includes:

    1.1 an identification of the Property involved in the Valuation;
    1.2 an identification of the Property rights to be valued;
    1.3 the intended use of the Valuation, and any related limitations;
    1.4 the identification of any subcontractors or agents and their contribution;
    1.5 a definition of or the Basis of Valuation sought;
    1.6 the date as of which the value estimate will apply; and the date of the intended report; and
    1.7 an identification of any contingent and limiting conditions upon which the Valuation is based.

2. Confidentiality of the Report

2.1 The Valuer shall provide to the client a Report setting out his opinion of the value of the relevant interest in the Property. The Report shall state the purposes of the Valuation and that it is prepared for the sole use of the client identified in the Report. The Report shall be regarded as confidential information which shall be disclosed to and used by the client and his professional advisers only.

2.2 The Valuer shall also set out in the Report that he has prepared the Report with the skill, care and diligence reasonably to be expected of a competent and properly qualified Valuer, but he accepts no responsibility whatsoever to any person other than the client himself. Any person who wishes to rely on any information set out in the Report shall be at his own risk. Neither the whole nor any part of the Report or any reference to it may be included in any published document, circular or statement nor published in any way without the Valuer's prior written approval (which approval shall be granted or rejected at the Valuer's discretion and on terms and conditions as advised by the Valuer).

Appendix VS 2.2 – Assumptions

1. Introduction

1.1 In arriving at Market Value, the Valuer has to take into account the Assumptions which the market would generally make under the particular circumstances. An Assumption is a supposition that is taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a Valuation that it has been agreed but need not be verified by the Valuer as part of the Valuation process. Assumptions are made where it is reasonable for the Valuer to accept that something is true without the need of carrying out specific investigation.

1.2 An Assumption is often linked to a limitation on 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 on 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.

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, the revised Assumption and approach must be discussed 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 3.1 of the Standards) 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 basis.

2.2 The Member should report a restricted Valuation with appropriate qualifications. The Member shall make it clear to his 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 has been restricted; and 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 should also advise the client the following conditions:

(a) that his 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 prove to be incorrect or inadequate, the accuracy of his Valuation may be affected; and

(b) that the Valuation must be qualified using such words as ‘in the regions 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 of 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 a 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 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 insurer before accepting instructions.

Appendix VS 6.1 – The Valuation Certificate

1 A Valuation Certificate is a kind of a Valuation Report and must contain the requirements consistent with professional best practice.

2 Valuers should keep in mind that any insurance which they have effected to protect themselves against claims for negligence under professional indemnity policies may contain requirements as to the repetition of certain saving clauses in every Report and Valuation. If this is the case, such words should be repeated unless the insurers agree either to modification or to a complete waiver.

3 Whilst the form in which the Valuation is reported is a matter of discretion for the Valuer, without prejudice to the minimum contents stated in VS 6.1 above, every Valuation Certificate should include the following matters unless they are clearly not applicable:

3.1 Addressee

The Certificate will normally be addressed to the 'The Directors' of a company, 'The Trustees' of a Trust, 'The Partners' of a partnership, etc. The Valuer should ensure before acceptance of instruction that this is the case and if not, the appropriate addressee(s). This is important because unless otherwise stated or agreed, the addressee of the Valuation Report is the party to whom responsibility of the Valuer is held.

3.2 Properties to be included

Valuations should only include Properties where the beneficial or legal interest is vested in the client. Properties which are under contract to purchase, or are the subject of an option to purchase, should normally be excluded unless the client and his advisers require their inclusion. In that event, the proper addresses of the Properties, sufficient for identification without ambiguity or misleading, should be used.

3.3 Date and purpose

The date at which the Valuation has been made and the purpose, e.g. for auditing or financing. Where a number of Properties or legal interests in land are concerned, these should normally be valued as at one day, and the Valuer must state this Valuation date clearly in the Valuation Certificate.

3.4 Basis of Valuation

The Basis of Valuation should be stated and will normally be MV or DRC and the Valuer should state that the Valuation is made in accordance with the Standards. If for some special reasons another basis is adopted this should be adequately explained. Similarly, any qualifying words to MV should be given and their meaning carefully explained.

3.5 Information and Assumptions

The sources and nature of information relied upon should be stated, e.g. details of tenure, government lease restrictions, tenancies, building plan approvals, planning consents, planning proposals, contravention of any statutory requirements, outstanding statutory notices and building and site areas. Any assumptions made should also be stated and explained and any information which remains to be verified should be indicated.

Unless specifically stated in the Terms of Engagement, the Valuer should verify as much as possible the information used in the Valuation, whether or not it is provided by the client. The Valuer should not adopt a 'blanket assumptions clause' to state that the information relied upon (e.g. government lease restriction or tenure) is provided by the client, unless such information has in fact been provided by the client, and that verification has not been made possible for the Valuer.

If the date of inspection was materially different from the date of Valuation or no internal inspection was made of any Property or part, this should be made clear, and in the former event an indication made if there is any material change in values between the two dates.

3.6 Taxation and costs of acquisition or realisation

The Valuer should make it clear whether or not any allowance has been made for liability for taxation which may arise on disposal, whether actual or notional, and whether or not his Valuation reflects costs of acquisition or realisation.

Market values would normally be the 'contract' sale price before adjustment for costs, but a DRC Valuation would include the costs of creating the asset. No allowance will normally be made for the existence of a mortgage or similar financial encumbrances on or over the Property.

3.7 Overseas Properties

Valuers are advised to consult with the Directors and auditors concerned when preparing Valuations of overseas Properties.

Those Properties should be divided into the same separate sections as apply to the Hong Kong Properties. Separate schedules should be prepared in respect of each country to facilitate exchange rate conversions.

The currency in which the Property is valued, and the currency into which the value is translated, as well as the conversion rate, date of conversion (which should normally be the date of Valuation) should clearly be stated.

In the preparation of a Valuation in respect of overseas Properties, a note should be made as to whether or not an allowance has been made in respect of existing or proposed local legislation relating to taxation on the realisation of the Properties.

The Valuation should normally reflect the Market Value in the country concerned and it should be made clear that no allowance has been made for the transference of such funds from that country to Hong Kong or between the various companies of the Group.

Members are reminded that acquisition and sale costs overseas can be substantial.

3.8 Non-publication clause

There should be a clause prohibiting publication without consent so as to prevent errors and omissions in publication.

An example of acceptable wording for such a clause is:

'neither the whole nor any part of this Valuation Certificate or any reference thereto may be included in any published document, circular or statement nor published in any way without the Valuer's written approval of the form and context in which it may appear'

The Valuer's Letter of Consent should only be given when a final proof of the document, etc., is available, and the consent should refer to a specimen annexed or referred to and signed as identification of what has been approved (see VS 6.7 of the Standards).

3.9 Liability to Third Parties

It is customary for Valuers to conclude a Valuation with a savings clause having regard to the Hedley Byrne case under which no responsibility is accepted to Third Parties.

4 Property schedules / summary of values

4.1 If the Valuation Certificate relates to a number of Properties, the Valuer will probably find it convenient to show these in schedules which may be appended to the Valuation Certificate. In that event it would be desirable to include a summary of the values shown in the schedules within the body of the Valuation Certificate. The information likely to be required in the summary and schedules is shown in the examples set out below.

4.2 'Negative values' should be stated in the schedules and carried forward to the summary and not set off against the positive values of assets in the same category.

5 Signing the Valuation Certificate

The name, address and qualifications of the Valuer must be given with a statement to the effect that the Valuer conforms to the particular requirements for the purpose of the Valuation. The Valuer must sign on the Valuation Certificate together with the date of the Valuation Certificate.

Examples of Valuation Certificate

A. PROPERTY HELD AS INVESTMENTS

Property	Description and Tenure	Particulars of Occupancy	Market Value as at DD/M/YYYY
IC House, LMN Trading Estate, ABC Road, Hong Kong The Remaining Portion of Inland Lot No. XXX.	A xx-storey industrial/ godown building with container hoist and central chilled water system for air-conditioning. The building has a gross floor area of approximately xxx,xxx sq.ft. (xx,xxx sq.m.) and a saleable area of approximately xxx,xxx sq.ft. (xx,xxx sq.m.) excluding carparks and loading/unloading areas. The building was completed in 1979. The property is held under a Government Lease for a term of xx years from 1st April xxxx.	The building is fully let except for two car parking spaces at a total monthly rental of xxxx, exclusive of rates and management and air-conditioning charges. The majority of leases are for x years with the latest expiry on xxxx.	HK$xxx

Note:

The registered owner of the property is XXX Company Limited, via an assignment dated DD/M/YYYY, registered vide Memorial XXXXXXX. There are no material encumbrances registered against the property.

B. PROPERTY UNDER DEVELOPMENT

Property	Description and Tenure	Particulars of Occupancy	Market Value as at DD/M/YYYY
UK Heights, Phase I, XY Road, Kowloon. Kowloon Inland Lot No. XXX	The property occupies a site having a registered site area of xxx,xxx sq.ft. (xx,xxx sq.m.), on which a residential development is being constructed. On completion, the property will comprise four xx-storey residential towers with a total of xxx flats and xxx car parking spaces. The total gross floor area and total saleable area of the completed development is approximately xxx,xxx sq.ft (xx,xxx sq.m.) xxx,xxx sq.ft. (xx,xxx sq.m.) respectively. The development is expected to be completed in or about M/YYYY. The property is held under a Government Lease for a term of xxx years from xxxx.	Substructure works have been completed and the superstructure contract is in progress.	HK$xxx

Notes:

1. The registered owner of the property is XXX Company Limited, via an assignment dated DD/M/YYYY, registered vide Memorial XXXXXXX.

2. The property is subject to a Legal Charge in favour of XXXXXXX Bank dated DD/M/YYYY, registered vide Memorial XXXXXXX.

3. The estimated Market Value as if completed is HK$xxx. Our valuation under “estimated Market Value as if completed” is based on the value of the development as if it was completed as at the date of valuation, and based on the approved building plans and other information provided to us.

4. The development costs expended and further costs to completion (excluding interests) are HK$XXX,XXX,XXX and HK$X,XXX,XXX respectively.

C. PROPERTY HELD FOR FUTURE DEVELOPMENT

Property	Description and Tenure	Particulars of Occupancy	Market Value as at DD/M/YYYY
No. XXX, Garden Road, Hong Kong Inland Lot No. XXX.	The property comprises a rectangular shaped site having a site of approximately xx,xxx sq.ft. (x,xxx sq.m.). Subject to approval be obtained from relevant government departments, the property is capable of being redeveloped into a commercial development with a total gross floor area of approximately xxx,xxx sq.ft. (xx,xxx sq.m.). The property is held under New Grant No. xxxx for a term of xx years from 18th April xxxx.	Currently standing on the property is a row of x-storey apartment blocks which are vacant and are pending demolition.	HK$xxx

Notes:

1. The registered owner of the property is XXX Company Limited, via an assignment dated DD/M/YYYY, registered vide Memorial XXXXXXX.

2. The property is subject to a Legal Charge in favour of XXXXXXX Bank dated DD/M/YYYY, registered vide Memorial XXXXXXX.

D. COMPLETED PROPERTY HELD FOR SALE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at DD/M/YYYY
All Domestic Units in Towers K & L, Stage I, EF City, GH Road, Hong Kong. Inland Lot No. XXX.	The property comprises all the xx domestic flats in Towers K and L of EF City which was completed in August xxxx, with a saleable area of approximately xxx sq.ft. (xx.xx sq.m.) The property is held under a Government Lease for a term of xxx years from xxxx.	One unit is currently vacant, one unit is leased at a total monthly rental of HK$XXX,XXX (exclusive of Rates and Management Fees). Majority of the tenancies are for terms of 2-3 years, with the latest expiry on DD/M/YYYY.	HK$xxx

Notes:

1. The registered owner of the property is XXX Company Limited, via an assignment dated DD/M/YYYY, registered vide Memorial XXXXXXX.

2. The property is subject to a Legal Charge in favour of XXXXXXX Bank dated DD/M/YYYY, registered vide Memorial XXXXXXX.

E. PROPERTIES OCCUPIED PRIMARILY BY THE COMPANY

GROUP I - PROPERTY OCCUPIED BY THE COMPANY

Property	Description and Tenure	Particulars of Occupancy	Market Value as at DD/M/YYYY
Ground Floor, and 7th to 11th Floors (inclusive), ABC Industrial Building, XYZ Road, Kowloon 1260/2565th shares of and in Kowloon Inland Lot No. XXX.	The property comprises six factory floors in a xx-storey industrial building completed in or about xxxx. The total saleable area of the property is approximately xx,xxx sq.ft. (x,xxx sq.m.). The property is held under a Government Lease for a term of xxx years from xxxx.	The property is occupied by the Company as offices.	HK$xxx

GROUP II - PROPERTY RENTED BY THE COMPANY

Property	Description and Occupancy	Market Value as at DD/M/YYYY
Unit WXY, 10th Floor, STU House, 22-24 NOP Road, Kowloon.	The property comprises an office unit on the xxth Floor of a xx-storey plus basement commercial building completed in or about xxxx. It has a saleable area of approximately x,xxx sq.ft. (xxx.xx sq.m.). The property is held under a tenancy agreement by the Company as lessee for a term of three years from 1st March xxxx at a rent of HK$x,xxx per month, exclusive of rates. The lessee has an option to renew for a term of 3 years at the then market rent. The tenancy is not assignable. The property is currently occupied by the Company as workshops and production areas with ancillary offices.	No Commercial Value

Appendix VS 6.2 – Examples of Acceptable Published References to Valuation Reports

1. Valuation by an Internal Valuer

'The leased Properties occupied by the company were valued by an Internal Valuer, A Chan FHKIS, the company's Valuation Manager, at HK$xxx,xxx,xxx, as at 31 December 20xx, on the basis of Market Value, in accordance with the HKIS Valuation Standards on Properties'.

'The leased Properties occupied by the company were valued as at 31 December 20xx, by the Directors, after consultation with the company's own professionally qualified staff, at HK$xxx,xxx,xxx. The Valuation was on the basis of Market Value, in accordance with the HKIS Valuation Standards on Properties'.

2. Valuation by an External Valuer

'The leased Properties occupied by the company were valued at HK$xxx,xxx,xxx by External Valuers, ABC Surveyors, Ltd. as at 31 December 20xx, on the basis of Market Value, in accordance with the HKIS Valuation Standards on Properties'.

'The leased investment Properties were valued by External Valuers, DEF Surveyors Ltd, as at 30 June 20xx, on the basis of Market Value, in accordance with the HKIS Valuation Standards on Properties'.

Appendix GN 1.1 – Verification of Information for Valuations Required for Different Purposes

1. *Stock Exchange Quotations and Circulars* - where prior verification of information is of the greatest importance. Where a Valuation involves a substantial number of tenanted Properties it may neither be practicable nor necessary to set out or verify all the details of each tenancy and in these circumstances, it may be reasonable that the information to be verified in detail should be limited to the term of the tenancy, rent and any rent review during the term of the tenancy, whereas for other respects of the tenancy e.g. whether the tenancy is on a full repairing and insuring basis, should be set out in broad general terms. In these cases both the Valuation and the verification section of the Report should contain a note advising that such kind of broad generalisation has been employed.

2. *Advising on the security for a loan* - where verification in detail can reasonably take place in most cases while the legal formalities of the disposition, loan or other financial commitments are being processed.

3. *Other purposes* - where verification must be done in line with the particular requirements and the Valuer should remember the purpose of the Valuation and consider what degree of detail he needs to obtain for purpose of completing his Valuation/Report.

4. Except otherwise stated in the above, the Valuer should (in most, if not all cases) make it clear that information on which the Valuation/Report is based needs to be verified by the client's or other interested parties' legal advisers before the Valuation or the Report is issued. Any discrepancies revealed on a legal investigation will need to be referred to the Valuer so that he may confirm or amend his Valuation or Report, as the case maybe.