The Hong Kong Business Valuation Forum Business Valuation Standards

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2005

FOREWORD

Hong Kong has an increasing need for the provision of business valuation services. Members of The Hong Kong Institute of Surveyors (HKIS), The Hong Kong Society of Financial Analysts (HKSFA) and The Royal Institution of Chartered Surveyors (RICS) are involved in the undertaking of business valuation services in Hong Kong. Since there are no standard guidelines for business valuation practitioners in Hong Kong, the three institutes have formed a joint forum to handle the issues arising from the business valuation services carried out by their members. The organisation is named The Hong Kong Business Valuation Forum (HKBVF). With the concerted effort of the member organisations, a set of Business Valuation Standards (the Standard) endorsed by the Advisory Board of the HKBVF was successfully promulgated in November of this year.

The objective of the Standard is to provide guidance and common standards to the Registered Business Valuers of the HKBVF to follow in preparing business valuation reports. The Registered Business Valuers are required to observe and comply with the Standard which, have been developed to ensure the highest professionalism, integrity, clarity, reliability and impartiality of business valuation practices. More importantly, the promulgation of the Standard is intended to further enhance the professional standards and international status of Hong Kong's valuation profession. Having said that, we strongly encourage the other professional bodies to observe and follow this Standard where business valuations are involved. The HKBVF will regularly review and closely monitor the Standard. Amendments and additions will be issued as and whenever the HKBVF considers appropriate.

We welcome comments regarding the Standard. We would like to take this opportunity to express our gratitude to all of the members of the Advisory Board who have made significant contributions in the preparation of the Standard.

The Hong Kong Business Valuation Forum
November 2005

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1.0 Introduction

1.1 The Hong Kong Business Valuation Forum (HKBVF) has adopted this Business Valuation Standards (the Standard) to improve the consistency and quality of business valuations among its Registered Business Valuers in Hong Kong for the benefit of the public and aimed at satisfying the requirements of the regulatory authorities in Hong Kong.

1.2 The Members of the HKBVF agreed this Standard should be based on the International Valuation Standards Guidance Note No. 6 - Business Valuation (GN 6) published by the International Valuation Standards Committee (IVSC) with necessary amendments and modifications to reflect local elements and the local business valuation practice. Permission of the IVSC who owns the copyright of GN 6 has been obtained. No responsibility is accepted by the IVSC for the accuracy of the information contained in the text and the English version as published by the IVSC shall be regarded as the official version of this Standard. The full text of the original version may be obtained from the IVSC International Headquarters, 12 Great George Street, London SW1P 3AD, UK. http://www.ivsc.org

1.3 The Members of the HKBVF agreed this Standard should be mandatory to its respective Registered Business Valuers in conducting business valuations but it has no intention to provide a step-by-step manual to guide or regulate the respective Registered Business Valuers in reaching a value conclusion.

1.4 Business valuations are commonly sought and performed on the Market Value basis with proper explanations and disclosures. The definition of 'Market Value' adopted in this Standard is reproduced from the International Valuation Standards with the permission of the IVSC who owns the copyright. No responsibility is accepted by the IVSC for the accuracy of the information contained in the text and the English version as published by the IVSC shall be regarded as the official version of this Standard. The full text of the original version may be obtained from the IVSC International Headquarters, 12 Great George Street, London SW1P 3AD, UK. http://www.ivsc.org

1.5 Care should be taken by Registered Business Valuers and users of business valuation services to distinguish between the value of a business entity or specialised trading properties, the valuation of trade-related assets (both tangible and intangible) owned by such an entity, and various possible applications of business or going concern considerations encountered in the valuation of such an entity.

1.6 In the Standard: (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.

1.7 The HKBVF would make its best efforts to ensure that all information contained in the Standard is accurate and up to date. The HKBVF reserves the right to make any changes to the Standard from time to time as a result of any changes in laws, rules and regulations, market practices, government policies, requirements of Hong Kong Exchanges and Clearing Limited (HKEx) or Securities and Futures Commission (SFC) and any other reasons as the HKBVF deems appropriate without further notice. The HKBVF will publish an updated version of the Standard from time to time and the fellow Registered Business Valuers of the HKBVF shall obtain the updated version of the Standard from their respective institutes.

The HKBVF 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 Standard. The Standard shall be governed by and construed in accordance with the laws of Hong Kong. In the event that there is any inconsistency between the Standard and the laws of Hong Kong, the laws of Hong Kong shall prevail to the extent of such inconsistency.

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2.0 Scope

2.1 This Standard is provided to assist in the course of rendering or using business valuations in Hong Kong.

2.2 This Standard contains a broad discussion of the business valuation process. This includes matters to be considered by the Registered Business Valuers when agreeing to the terms and conditions of their engagement in preparing the Reports; bases of valuation, assumptions and material considerations that must be taken into account when preparing a Report; and matters that shall be disclosed if the Reports might be relied upon by third parties.

2.3 This Standard is mandatory to the Registered Business Valuers so that 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.

2.4 This Standard should not be considered as an asset valuation standard. In some instances, such as in providing 'value in liquidation', Registered Business Valuers may need to refer asset valuations to some specialists to perform as contributing valuer, such as Registered Professional Surveyors on real estate properties.

2.5 Sometimes clients may require valuations be done for purposes as required by law or for any other purposes where strict application of the Standard is not appropriate. Circumstances where strict applications of the Standard may not be appropriate include, but are not limited to, advice required for use in legal proceedings; acting as arbitrator, independent experts and mediators in the course of negotiations; internal valuations; and, agency or investment related work. If, in the opinion of the Registered Business Valuer, a departure from this Standard is necessary and appropriate, such departure shall be disclosed and the reason for invoking the departure clearly set forth in all Valuation Reports (oral or written) issued by the Registered Business Valuer.

3.0 Glossary

3.1 Introduction

3.1.1 For the sake of consistency and better communication, it is advisable for the business valuation profession in Hong Kong to use commonly used definitions as other practitioners globally, which meanings have been established clearly and consistently, to be applied throughout the profession. The HKBVF has adopted certain definitions published by various institutions, including, but not limited to, the IVSC and The Hong Kong Institute of Surveyors, in this glossary and highly recommends the Registered Business Valuers adopt such definitions in the Reports.

3.1.2 If any Registered Business Valuer wishes to adopt any definition that materially departs from the definitions set out in this glossary, the Registered Business Valuer must set out his/her own definitions clearly in the Engagement Letter (as defined in the Standard) and in the Valuation Report (as defined in the Standard) to avoid confusion and potential dispute.

3.1.3 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 the Engagement Letter and in the Valuation Report.

3.1.4 The definitions referred to in this glossary are, by no means, intended to replace or to simplify the narrative sections related to *approach to value* and *valuation method* in a Report; rather, a Registered Business Valuer shall exercise his own professional judgement to determine how his Report be presented to his client in a precise and unambiguous way with or without reference to the definitions set out in this glossary.

3.1.5 Departure from this glossary does not mean that it attracts or incurs any civil liability and shall not be presumed to create evidence that a duty of care has been breached.

3.2 Definitions

Adjusted Book Value. The book value that results when one or more asset or liability amounts are added, deleted, or changed from the reported book amounts.

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 Registered Business Valuer 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.

Appraisal. See **Valuation.**

Approach to Value. See **Valuation Approach.**

Asset-based Approach. A means of estimating the value of a business interest using methods based on the Market Value of individual business assets less liabilities.

Basis of Valuation. A description, or definition, of the type of value being sought within a given set of parameters.

Book Value.

(a) With respect to assets, the capitalised cost of an asset less accumulated depreciation, depletion, or amortisation as it appears on the books of account of the business.

(b) With respect to a business enterprise/entity, the difference between total assets (net of depreciation, depletion, and amortisation) and total liabilities of a business as they appear on the balance sheet.

Business Enterprise/Entity. A commercial, industrial, service, or investment entity pursuing an economic activity.

Business Valuation. The act or process of arriving at an opinion or estimation of the value of a business or enterprise/entity or an interest therein.

Capitalisation.

(a) At a given date, the conversion into the equivalent capital value of net income or a service of net receipts, actual or estimated, over a period.

(b) In business valuation, the term refers to the capital structure of a business entity.

(c) In business valuation, this term also refers to the recognition of an expenditure as a capital asset rather than a periodic expense.

Capitalisation Factor. Any multiple used to convert income into value.

Capitalisation Rate. Any divisor (usually expressed as a percentage) that is used to convert income into value.

Capital Structure. The composition of the invested capital.

Cash Flow. See **Gross Cash Flow** and **Net Cash Flow.**

Control. The power to direct the management and policies of a business.

Control Premium. The additional value inherent in the control interest that reflects its power of control, as contrasted to a minority interest.

Discount for Lack of Control. An amount or percentage deducted from a pro rate share of the value of 100% of an equity interest in a business to reflect the absence of some or all of the powers of control.

Discount Rate. A rate of return used to convert a monetary sum, payable or receivable in the future, into present value.

Economic Life. The period over which property may be profitably used.

Effective Date. The date as of which the Registered Business Valuer's opinion of value applies (also referred to as the Date of Valuation and/or Valuation Date and/or As of Date).

Engagement Letter. Written confirmation of the conditions that the Registered Business Valuer either proposes, or that the Registered Business Valuer and client have agreed, shall apply to the undertaking and reporting of Valuation or Appraisal.

Enterprise. See **Business Enterprise.**

Financial Statements.

(i) A complete set of financial statements (which) comprises:

- (a) balance sheet;
- (b) income statement;
- (c) a statement showing either all changes in equity; or changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;
- (d) a cash flow statement; and
- (e) notes, comprising a summary of significant accounting policies and other explanatory notes.

(ii) In accounting, these comprise the balance sheet and income and expenditure statement (profit and loss account). They are written statements of the financial position of a person or company.

(iii) Financial records of prescribed content and form for publication in the interests of common information needs of a wide range of third-party users who are not necessarily identifiable. There is a measure of public account-ability associated with financial statements that are developed within a regulatory framework of accounting standards and the law. Financial statements are used to report the financial position and performance of an entity.

Going Concern.

(a) An operating business.

(b) A premise of valuation, under which Registered Business Valuers and accountants consider a business as an established enterprise/entity that will continue in operation indefinitely. The premise of a going concern serves as an alternative to the premise of Liquidation. Adoption of a going concern premise allows the business to be valued above liquidation value and is essential to the development of Market Value for the business.

(c) The entity is normally viewed as a going concern, that is, as continuing in operation in the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scope of its operation.

Going Concern Value. The value of a business, or of an interest therein, as a going concern. Intangible elements of value in an operating business resulting from factors such as: having a trained work force; an operational plant; and the necessary licenses, systems, and procedures in place.

Goodwill.

(a) Future economic benefits arising from assets that are not capable of being individually identified and separately recognised.

(b) Personal Goodwill. The value of profit over and above market expectations, which could be extinguished upon sale of the specialised trading property, together with those financial factors related specifically to the current operator of the business, such as taxation, depreciation policy, borrowing costs and the capital invested in the business.

(c) Transferable Goodwill. That intangible asset that arises as a result of property-specific name and reputation, customer patronage, location, products, or similar factors, which generate economic benefits. It is inherent to the specialised trading property, and will transfer to a new owner on sale.

Gross Cash Flow. Net income after taxes, plus non-cash items such as depreciation and amortization.

Holding Company. A business that receives returns on its assets.

Income Approach. Also known as Income Capitalisation Approach. A general way of estimating a value indication of a business, business ownership interest, or security, using one or more methods wherein a value is estimated by converting anticipated benefits into capital value.

(the) HKBVF. The Hong Kong Business Valuation Forum.

Invested Capital. The sum of the debt and equity in a business on a long-term basis.

Majority Interest. Ownership position greater than 50% of the voting interest in a business.

Majority Control. The degree of control provided by a majority position.

Market Approach. A general way of estimating a value indication of a business, business ownership interest, or security, using one or more methods that compare the subject to similar businesses, business ownership interests, or securities that have been sold.

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

Marketablility Discount. An amount or percentage deducted from an equity interest to reflect lack of marketability.

Method of Valuation. See **Valuation Method.**

Member(s). Member institute(s) of the HKBVF.

Minority Interest. Ownership position less than 50% of the voting interest in a business.

Minority Discount. A discount for lack of control applicable to a minority interest.

Net Assets. Total assets less total liabilities.

Net Income. Revenue less expenses, including taxes.

Net Cash Flow. During an operating period, that amount of cash that remains after all cash needs of the business have been satisfied. Net cash flow is typically defined as being cash available to equity or invested capital.

(a) Equity Net Cash Flow is typically described by the following equation:

Net income after taxes, plus depreciation and other non-cash charges, less increases in working capital, less capital expenditures, less decreases in invested capital debt principal, plus increases in invested capital debt principal.

(b) Invested Capital Net Cash Flow is typically described by the following equation:

Equity Net Cash Flow, plus interest payments net of tax adjustment, less net increases in debt principal.

Operating Company. A business that performs an economic activity by making, selling, or trading a product or service.

Rate of Return. An amount of income (loss) and/or change in value realised or anticipated on an investment, expressed as a percentage of that investment.

Registered Business Valuer. A qualified member of the Members of The Hong Kong Business Valuation Forum and on the approved list of The Hong Kong Business Valuation Forum.

Replacement Cost New. The current cost of a similar new item having the nearest equivalent utility as the item being appraised.

Report. The written means, including material transmitted by electronic means of providing the client with the Valuation or Appraisal.

Report Date. The date of the Valuation Report. May be the same as or different from the Valuation date.

Reproduction Cost New. The current cost of an identical new item.

Statement of Standard. A statement of the highest professional standards which Registered Business Valuers are required to observe when providing written valuations of business enterprises for all purposes to which the Standard apply.

Significant Financial Interest. It refers to a situation where a person or his family members, associate entitling (individually or together) to exercise, or control the exercise of, by the ownership of equity interest or options, 5% or more of the voting power at any general meeting of a business enterprise.

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.

(the) Standard. The Business Valuation Standards as published and amended by the HKBVF from time to time.

Valuation. A Registered Business Valuer's opinion of the value of a specified interest or interests in an asset or a business, at the date of valuation, given in writing. Unless limitations are agreed in the Engagement Letter, this will be provided after any further investigations and enquiries that are appropriate, having regard to the nature of the subject interest(s) and the purpose of the valuation.

Valuation Approach. In general, a way of estimating value using one or more specific valuation methods. There are three conventional approaches to value a business enterprise. They are: the Asset-based Approach, the Market Approach, and the Income Approach.

Valuation Method. Within approaches, a specific way or a series of steps to estimate value. Examples of such methods include guideline companies, discounted cash flow and the residual income method. It is the responsibility of the individual Registered Business Valuer to choose the appropriate method of valuation to use in each case.

Valuation Procedure. The act, manner, and technique of performing the steps of a valuation method.

Valuation Ratio. A factor wherein a value or price serves as the numerator and financial, operating, or physical data serve as the denominator.

Value. The price most likely to be concluded by the buyers and sellers of goods or services that is available for purchase. Value establishes the hypothetical or notional price that buyers and sellers are most likely to conclude for the goods or services. Thus value is not a fact, but an estimate of the likely price to be paid for goods or services available for purchase at a given time.

Working Capital. The amount by which current assets exceed current liabilities.

4.0 Relationship to Accounting Standards

4.1 The HKBVF considered that it is not appropriate to provide a direct link between this Standard and the Accounting Standards in Hong Kong. However, the HKBVF noticed that in some instances Registered Business Valuer needs to follow a set of procedures as required by the Accounting Standards to arrive at a value other than a Market Value to aid the accountant in the establishment or restatement of financial statements, such as 'value in use' or 'purchase price allocation in a business combination'. In this context, the Registered Business Valuer needs to disclose the set of procedures in the Report and to follow the International Valuation Standard 2 (IVS2) whenever and wherever possible in preparing the Report.

4.2 The Accounting Standards referred to in this Standard are Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards published by the Hong Kong Institute of Certified Public Accountants from time to time.

5.0 Statement of Standard

5.1 Business Valuation may be required for a number of possible uses, including acquisition and dispositions of individual businesses, mergers, valuation of shareholder ownings, and the like.

5.1.1 Where the purpose of the valuation requires a Market Value estimate, the Registered Business Valuer shall apply definitions, processes, and methodologies consistent with their provision in IVS1.

5.1.2 When an engagement calls for a value basis other than Market Value, the Registered Business Valuer shall clearly identify the type of value involved, define such value, and take steps necessary to distinguish the value estimate from a Market Value estimate. In that respect, the provision in IVS2 shall be followed whenever and wherever possible.

5.2 If, in the opinion of the Registered Business Valuer, certain aspects of an engagement indicate that a departure from this Standard is necessary and appropriate, such departure shall be disclosed and the reason for invoking the departure clearly set forth in all Valuation Reports (oral or written) issued by the Registered Business Valuer.

5.3 The Registered Business Valuer shall state clearly in his Report the information that he is relied on and, where appropriate, its source. The Registered Business Valuer shall take reasonable steps to assure that all data sources relied upon are reliable and appropriate to the valuation undertaking. In many instances it will be beyond the scope of the Registered Business Valuer's services to perform a complete verification of secondary or tertiary data source. Accordingly, the Registered Business Valuer shall verify the accuracy and reasonableness of data sources as is customary in the markets and locale of the valuation.

5.4 Registered Business Valuers must often rely upon the services of other professionals. A common example is reliance upon a Registered Professional Surveyor to value the real estate components owned by a business. Where the services of other experts are relied upon, the Registered Business Valuer shall

5.4.1 take such verification steps as are necessary to assure that such services are competently performed and that the conclusions relied upon are reasonable and credible, or

5.4.2 disclose the fact that no such steps were taken.

5.5 Registered Business Valuers must frequently rely upon information received from client or from a client's representatives. The source of any such data relied upon shall be cited by the Registered Business Valuer in oral or written Valuation Reports, and the data shall be reasonably verified wherever possible, or to disclose the fact that no such verified steps were taken.

5.6 Awareness of current market activity and knowledge about relevant economic developments and trends are essential for competent business valuations. In order to estimate the Market Value of a business, Registered Business Valuers must identify and assess the impact of such consideration in their valuations and Reports.

5.7 A description of the business valuation assignment must include

5.7.1 identification of the business, business ownership interest, or security to be valued;

5.7.2 the ultimate client the report address to;

5.7.3 the effective date of the valuation;

5.7.4 the definition of value;

5.7.5 the owner of the interest; and

5.7.6 the purpose and use of the valuation.

5.8 Factors to be considered by the Registered Business Valuer in the valuation of a business include:

5.8.1 The rights, privileges, or conditions that attach to the ownership interest, whether held in corporate form, partnership form, or proprietorship.

5.8.2 The nature of the business and history of the business.

5.8.3 The economic and political outlooks, and regulatory requirements that may affect the subject business.

5.8.4 The condition and outlook of the specific industry that may affect the subject business.

5.8.5 The assets, liabilities, and equity and financial condition of the business.

5.8.6 The earnings and dividend paying capacity of the business.

5.8.7 Whether or not the business has intangible value such as patents, trademarks, copyrights, brands, know-how, databases, goodwill, etc.

5.8.8 Prior transactions in ownership interest of the subject business.

5.8.9 The relative size of the ownership interest to be valued and its different levels of control and be aware of the legal restrictions and conditions that arise through the law of the State in which the business exists.

5.8.10 Other market data, e.g., rates of return on alternative investments, advantages of control, disadvantages of lack of liquidity, etc.

5.8.11 The market prices of publicly traded stocks or partnership interest, acquisition prices for business interests, or businesses engaged in the same or similar lines of business.

5.8.11.1 Often, particularly in the use of acquisition transactions, adequate information is difficult or impossible to obtain. While the actual transaction price may be known, the Registered Business Valuer may not know what warranties and indemnities were given by the seller, what terms were given or received, whether cash or other assets were taken from the business prior to acquisition, or what impact taxation planning had on the transaction.

5.8.11.2 Comparable data should always be used with care and inevitably numerous adjustments need to be made. When using market prices that reflect public trading, the Registered Business Valuer must bear in mind that the market prices are from transactions for small minority holdings. The price for the acquisition of an entire business represents 100% of the business. Adjustments must be made for differences arising due to different levels of control.

5.8.12 Any other information the Registered Business Valuer believes to be relevant.

5.9 Use of financial statements

5.9.1 There are three goals of financial analysis and adjustment:

5.9.1.1 Understanding of the relationships existing in the profit and loss statement and the balance sheet, including trends over time, to assess the risk inherent in the business operations and the prospects for future performance

5.9.1.2 Comparison with similar businesses to assess risk and value parameters

5.9.1.3 Adjustment of historical financial statements to estimate the economic abilities of and prospects for the business

5.10 To aid in understanding the economics of and risk in business interest, financial statements should be analysed in terms of 1) money, 2) percentages (percentage of sales for items in the income statement and percentage of total assets for items in the balance sheet), and 3) financial ratios.

5.11 For estimates of the Market Value of a business, the Registered Business Valuer may consider to make some adjustments to the financial record of the business to make it more closely approximate economic reality of both the income stream and the balance sheet, this including but not limited to revenues and expenses, non-recurring events, inventory and tax.

5.11.1 Some adjustments that would be made in the context of valuation of the entire business might not be made in the context of valuation of a non-controlling interest in that entity since the non-controlling interest would not have the ability to make the adjustment.

5.11.2 Financial statement adjustments are made for the purpose of assisting the Registered Business Valuer in reaching a valuation conclusion. If the Registered Business Valuer is acting as a consultant to either the buyer or seller in a proposed transaction, the adjustments should be understood by the client. For example, the proposing purchaser should understand that the value derived after adjustments may present the maximum that should be paid. If the purchaser does not believe the financial or operational improvements can be made, a lesser price may be appropriate.

5.11.3 Adjustments made should be fully described and supported. The Registered Business Valuer should be very careful in making adjustments to the historical record. Such adjustments should be discussed fully with the client. The Registered Business Valuer should make adjustments only after sufficient access to the business to support their validity.

5.12 The Registered Business Valuer has a duty to the client to use one or more methods under one or more valuation approaches recognised by this Standard as the appropriate approaches for the purpose of the valuation and, through reconciliation processes, arrive at a conclusion of value.

5.12.1 There are three internationally recognised valuation approaches for valuing a business enterprise, namely: the Asset-based Approach, the Income Approach and the Market Approach. Registered Business Valuer shall ensure that in all cases the valuation approach and its related method(s) to be used in the engagement are set out clearly in both the Engagement Letter and the Report. The named approaches in this Statement of Standard shall be in accordance with the IVSC GN 6.

5.12.2 Business valuation is a complex exercise and it may not be objective enough for Registered Business Valuers to employ a single method under a single approach. The Registered Business Valuers are advised to use two or more approaches and/or methods in performing valuation of a business enterprise, and having considered the relevant valuation approaches, methods and procedures, the information available, and appropriate premiums and discounts (if any), to reconcile different value indications into a single value, or a range of values, to be reported in the Report.

5.12.3 In using the Asset-based Approach, valuations of real estate properties in Hong Kong shall be made in accordance with the latest Hong Kong Institute of Surveyors Valuation Standards on Properties.

5.13 Reconciliation processes

5.13.1 The value conclusion shall be based upon

5.13.1.1 the definition of value;

5.13.1.2 the purpose and intended use of the valuation; and

5.13.1.3 all relevant information as of the valuation date necessary in view of the scope of the assignment.

5.13.2 The value conclusion shall also be based on value estimates from the valuation methods performed.

5.13.2.1 The selection of and reliance on the appropriate approaches, methods, and procedures depends on the judgment of the Registered Business Valuer.

5.13.2.2 The Registered Business Valuer must use judgment when estimating the relative weight to be given to each of the value estimates reached during the valuation process. The Registered Business Valuer should provide the rationale and justification for the valuation methods used and for the weighting of the methods relied on in reaching the reconcile value.

6.0 Effective Date

6.1 This Standard became effective 1 January 2006.

7.0 Guidance Notes

7.1 Engagement

7.1.1 The Registered Business Valuers shall always confirm the instructions with the clients by having an Engagement Letter in place. 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.

7.1.1.1 To ensure client satisfaction and minimise the possibility of any misunderstanding and dispute between a Registered Business Valuer and his client, the Registered Business Valuer shall understand the client's needs and requirements, and whenever possible, put them in writing before issuing any Report.

7.1.1.2 An Engagement Letter is a contract made between a Registered Business Valuer and his client, setting out the terms and conditions of the client's appointment. Therefore an Engagement Letter shall contain, wherever possible, the following terms and conditions such as the identity of the client (including but not limited to client's full name, address of registered office, etc); the purpose of the valuation; the interest to be valued; the basis of valuation; the date of valuation; the status of the Registered Business Valuer and disclosure of any conflicts of interest or previous involvement; the currency in which valuation is to be expressed; any Assumptions, Special Assumptions, reservations, any special instructions or Departures; the extent of the Registered Business Valuer's investigations; other standardised terms and conditions.

7.1.2 A Registered Business Valuer shall not conduct a procedure review on a Report prepared by another valuer that is intended for public disclosure or publication purpose unless the Registered Business Valuer possesses all the necessary facts and information on which the first valuer has relied on, except in the following circumstances:

7.1.2.1 where a director of the client or an Internal Valuer prepares a Report which, due to the special requirement of the client, requires endorsement or comments from an External or Independent Valuer; or

7.1.2.2 where a Registered Business Valuer is asked to co-ordinate the work with other valuers, and to express support for others' approach and/or range of value they have adopted; or

7.1.2.3 where a Registered Business Valuer is instructed by the client to produce a separate independent valuation which may be used by the client to publicly challenge the first valuer's valuation.

7.2 Types of Valuers

7.2.1 Registered Business Valuers shall note that there are different types of valuers defined below. Registered Business Valuers must satisfy themselves that they meet the requirements laid down when accepting instructions for various purposes referred to in the Standard.

7.2.1.1 An 'External Valuer' is a valuer who is not an Internal Valuer and, where neither he nor any of his associates are directors or employees of the client’s company or group or have a Significant Financial Interest (as defined in this Standard) in the client's company or group, and where neither the client's company nor group has a Significant Financial Interest in the Registered Business Valuer’s firm. For the purpose of the Standard, 'company’ includes sole proprietor, partnership, limited company and any other form of entity or organisation, e.g. a trust.

7.2.1.2 An 'Internal Valuer' is a valuer who is a director (or of equivalent status) or an employee of the client who has no Significant Financial Interest in the company.

7.2.1.3 The term 'Joint Valuers' should only be used on occasions where two or more Registered Business Valuers are jointly or severally appointed to provide a Report. In such cases, a single Report should be provided by having the signatures of the Joint Valuers together with their names and addresses.

7.2.1.4 Where the appraised asset(s) to be included in the Registered Business Valuer's instructions include a category of asset in respect of which the Registered Business Valuer does not possess the requisite knowledge and experience, and for which he would not, therefore, be qualified under this Standard to perform a valuation, then:

7.2.1.4.1 the Registered Business Valuer may employ (with the consent of his client) a sub-agent or any person whom the Registered Business Valuer regards as having the requisite knowledge and experience; or

7.2.1.4.2 the Registered Business Valuer may advise that an 'Additional Qualified Valuer' be appointed by the client to value the particular asset(s).

7.2.1.5 An 'Independent Valuer' is an External Valuer who has no other recent or foreseeable potential fee earning relationship concerning the subject asset(s) apart from the valuation fee for being an Independent Valuer and who has, by exercising reasonable judgement, disclosed any past or present relationship with any of the interested parties or any previous involvement with the subject asset(s).

7.2.1.6 A 'Contributing Valuer' is a valuer who has provided significant valuation assistance in the valuation-related assignment but, for some reasons, did not sign the Report.