



THE HONG KONG INSTITUTE OF
SURVEYORS

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Hong Kong Exchanges and Clearing Limited
Listing Division
11th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

THE HONG KONG SECURITIES
AND FUTURES COMMISSION
OF HONG KONG LIMITED
Securities and Futures Commission
Corporate Finance Division
8th Floor, Chater House
8 Connaught Road Central
Hong Kong

073442

Dear Sir/Madam,

Thank you for sending us a set of the Consultation Paper on the Regulation of Sponsors and Independent Financial Advisors for reference. Although the Consultation Paper concern mainly the sponsors and independent financial advisors, some sections of the Consultation Paper (paragraphs 41 and 205-213) relate to the valuation and appraisal profession. Hong Kong Institute of Surveyors is the only local incorporated and self-regulatory organization regulating the practice of professional valuation in Hong Kong and we strongly support establishment of a closer relationship between the HKEx and SFC in the future.

Statutory Recognition of HKIS

It is useful for you to note that the Hong Kong Institute of Surveyors has statutory recognition similar to the societies of lawyers and accountants in Hong Kong. The Hong Kong Institute of Surveyors was incorporated under the Hong Kong Institute of Surveyors Ordinance (Cap 1148) and all qualified surveyors can apply for registration under the Surveyors Registration Ordinance (Cap 417).

Scope of Valuation Services

Reference is made to paragraph 41 of the Consultation Paper in which it states that the appraisal work of the members of the Hong Kong Institute of Surveyors is limited to real estate asset and related business valuation. We would like to request the SFC and HKEx to state clearly in the Listing Rules and Takeover Codes that such related business valuation includes, but not limited to, valuations of hotels, petrol filling



stations, oil depots, hospitals, theme parks, electricity stations, container terminals, other infrastructure projects and land related assets as well as shares of companies whose assets are substantially made up of interests in real estate properties. This will better reflect the current usual scope of services provided by our members.

Valuation for Public Purpose

Reference is also made to paragraphs 205-207. The Institute agrees that reinforcement of relationship between SFC/HKEx and the Institute will be to the benefit of the public. The Institute has submitted to the HKEx a proposal on the eligibility criteria of valuers for conducting valuations for public listing and merger and acquisition purposes. The Institute welcomes further discussions with SFC/HKEx with a view to forge a formal gateway.

The Institute also welcomes the proposal in paragraph 207 reflecting that Hong Kong Institute of Surveyors is the only existing local corporate body governing the asset valuer in Hong Kong.

Intangible Asset Valuation

Regarding paragraphs 208-213, the Institute has reservation on the use of the term "non-property". There are assets like business interest in hotel, power station or toll road which are land related and should not be interpreted as non-property. Valuations are commonly performed by our professional members. The Institute suggests that the SFC/HKEx define the paragraphs 208-213 as merely covering the valuation of those intangible assets such as goodwill, patents, trademarks, business of non "property or land-related" nature etc.

Regarding the appraisal standard for intangible assets, the Consultation Paper has mentioned the Uniform Standards of Professional Appraisal Practice ("USPAP"). The Institute would like to point out that the USPAP is only applicable in the United States and is not universally adopted. Every country has its own system, local practice and market characteristics. It is risky to apply a standard of exotic origin in Hong Kong.



The Institute is of the opinion that the appraisal profession in Hong Kong should develop our own appraisal standard for non land-related intangible assets (the valuation standard of landed property in Hong Kong has been prepared by Hong Kong Institute of Surveyors and used for many years). In the interim period, the Institute would recommend the practitioners to use the International Valuation Standards (IVS) of International Valuation Standard Committee. There is a specific section to cover the standard of valuation of intangible assets in the IVS.

Below is the background of the International Valuation Standards Committee for your reference:

The International Valuation Standards Committee (IVSC, founded in 1981. IVSC is an NGO (Non-Government-Organization) member of the United Nations and works cooperatively with member States, organisations such as the World Bank, OECD, International Federation of Accountants, International Accounting Standards Board. IVSC's international headquarters is in London, England.

The principal IVSC objective is to formulate and publish, in the public interest, valuation Standards and procedural guidance for the valuation of asset, and to promote their worldwide acceptance and observance. The second objective is to harmonize Standards among the world's states, and to make disclosures of differences in standards statements and/or applications of Standards as they occur.

Currently, there are 36 member states including United States, United Kingdom, Australia, New Zealand, Germany, France, Canada, China, Hong Kong etc. and 14 Observers. The IVS has gradually been merged into the local valuation standards among the member states. As such, the Institute would recommend the International Valuation Standards for adoption in Hong Kong in the interim period before the local institute could develop its own valuation standard for intangible assets.

We are pleased to further discuss with you if you have any queries on the above.

Yours faithfully,

K.K. Chiu
Chairman
Valuation Standard & Practice Committee
Hong Kong Institute of Surveyors