VALUATION STANDARD – ENGAGEMENT OF SPECIALISTS

Chapter 1 General Provisions

1. The purpose of the Valuation Standard – Engagement of Specialists ("the Standard") is to systematise and regulate the engagement of specialists by a certified public value (hereinafter referred to as a "CPV"), to protect public interests and to safeguard the legitimate rights and interests of other concerned parties. The Standard is formulated pursuant to the Valuation Standard – General Standard.

2. The engagement of specialists is defined herein as the hiring of specialists for assistance by a CPV, the use of specialists' professional report in reference to a specific asset or assets in the course of a valuation assignment.

   The engagement of specialists for assistance is defined herein as the engagement of individuals qualified by knowledge, skill, experience, training, and education in a certain sector for assistance and support in a valuation that demands special expertise and experience.

   The use of professional reports is defined herein as the use of a professional report issued by an institution with professional qualifications or relevant experience in a certain sector to act as grounds for a valuation that involves special expertise and experience.

   Reference to a valuation report of a single specific asset is defined herein as a reference to a valuation report issued by a valuation institution with the qualifications to perform single-asset valuations, as part of the valuation report, in accordance with requirements of law, relevant regulations and the arrangements of the client, etc.

3. When engaging a specialist in valuation assignments, a CPV shall comply with the Standard.

Chapter 2 Engagement of Specialists for Assistance

4. When performing valuation assignments, a CPV could engage a specialist for assistance if special expertise and experience is required in the assignment.

5. Details of work for which a specialist is engaged by a CPV generally include:

   (a) professional judgment towards, among other characters, performance and advanced nature of the asset;

   (b) judgment towards the physical, technical and utility status of special assets; and

   (c) judgment towards, among other matters, the business operations and market conditions of special sectors.

6. The following shall be done if a CPV engages a specialist:

   (a) to consider, among other matters, the expertise, professional title, qualification, reputation and professional ethics of the specialist to be engaged, and to comprehensively analyse and monitor the competency of the specialist;

   (b) to understand, among other matters, the workflow and methodology adopted by the specialist, in order to ascertain that the specialist's work fulfils the needs of the valuation assignment; and

   (c) to evaluate and monitor the independence of the specialist.

   In general, the independence of the work done by a specialist employed by the client or concerned parties, or one that has any other relationship with the instruction party or concerned parties shall be considered compromised.

7. When engaging a specialist for assistance, a CPV shall, if required, obtain approval from the client. The valuation firm and the specialist shall identify the following points:

   (a) the objectives, scope and outcome of the work;

   (b) the ownership and intended use of the work; and

   (c) any requirement regarding information confidentiality.

8. When engaging a specialist for assistance, a CPV shall inform the specialist of the pertinent valuation regulations, any related circumstances of the valuation assignment, and provide specific work requirements.

9. A CPV shall take necessary measures to properly understand and reasonably use the work outcome of the specialist.

10. A CPV shall record the engagement of the specialist and any work outcome of the specialist in the working papers.

11. The legal liability of a valuation firm and a CPV shall not be diminished or relieved because a specialist has been engaged for assistance.

Chapter 3 Use of Professional Reports

12. When performing valuation assignments that involve areas of specialised expertise and experience, a CPV may use professional reports issued by professional institutions as grounds for the valuation.

13. Professional reports used by a CPV shall be obtained through lawful means, which generally include:

    (a) relevant, professional, publicly disclosed reports;

    (b) relevant, formally issued professional reports; and

    (c) related professional reports issued by a professional institution specifically engaged for work germane to the valuation.

machinery and equipment groups is not necessarily equal to the sum of the value of a single machine and equipment.

9. A CPV shall understand that, when conducting valuation assignments on the basis that the enterprise is a going concern, the value of machinery and equipment, as part of the enterprise's assets, is determined by its degree of contribution to the enterprise's value.

10. When performing machinery and equipment valuation assignments, a CPV shall select the appropriate basis of value according to relevant conditions, including the purposes of valuation.

11. When performing machinery and equipment valuation assignments, a CPV shall consider the effect on the value of the machinery and equipment, of the limit of resources on which the machinery and equipment relies, the market life of the product manufactured by the machinery and the equipment, the useful life of land and housing structures upon which the machinery and equipment is built, national laws and regulations, as well as industrial policies on aspects such as environmental protection, energy, etc.

Chapter 3 Operational Requirements

12. When performing machinery and equipment valuation assignments, a CPV shall understand the purposes of the valuation conclusion and specify the purposes of the valuation.

13. A CPV shall specify the valuation assumption based on the intended use of the machinery and equipment, which includes:

    (a) continuation of use or realisation of use;

    (b) use in situ or use in other locations; and

    (c) use for current purposes or for changed purposes.

14. When performing a valuation for machinery and equipment that requires a relocation for the continued use under its current purpose, or to continue use but for an altered purpose, a CPV shall consider the effect of relocating the machinery and equipment, or the effect of a change of purpose on its value.

15. When performing machinery and equipment valuation assignments, a CPV shall specify whether the scope of the valuation area includes the installation of the equipment, any foundational and auxiliary facilities of the equipment, and whether the equipment includes any intangible assets such as software, technical services and technical data, etc. These considerations will be based on conditions that include the purposes of valuation and valuation assumptions. For machinery and equipment that is auxiliary to a real property, a CPV shall reasonably separate the scope of the valuation area for the real property and that of the machinery and equipment to avoid any repetition or omission.

16. When performing machinery and equipment valuation assignments, a CPV shall perform a piece-by-piece, or one-by-one investigation or sampling investigation

of the machinery and equipment onsite in order to confirm the actual existence of the machinery and equipment, to ascertain the current status of the machinery and equipment, and to ascertain its ownership. If the sampling method is adopted in the onsite investigation, a CPV shall give full consideration to the sampling risk. In the event that an onsite investigation cannot be carried out due to restrictions on objective grounds (for example), a CPV shall adopt the appropriate measures for judgment and make appropriate disclosures.

17. A CPV shall reasonably determine the subject of the onsite investigation based on the specific conditions of the valuation object.

18. A CPV shall be able to judge the technical conditions of the machinery and equipment through onsite observation, using historical information provided by the division that is using the machinery and equipment. This information shall include all technical files, test reports and operation records, as well as any testing reports from professional institutions. A CPV shall engage a professional institution to carry out technical testing on the machinery and equipment where necessary.

19. A CPV shall be aware of the ownership of the machinery and equipment and oblige the client or other concerned parties in the valuation provide details regarding the ownership of the mechanical equipment. A CPV shall perform the necessary verification of information related to the ownership of the machinery and equipment.

20. A CPV shall acquire market information of the machinery and equipment through appropriate means and verify the authenticity and reliability of this information.

Chapter 4 Valuation Approaches

21. When performing machinery and equipment valuation assignments, a CPV shall analyse the appropriateness of three fundamental approaches including the cost approach, the market approach and the income approach. A CPV shall then select one or more of the appropriate approaches, based on relevant conditions such as the valuation object, the basis of value, and the status of the information collection, etc.

22. When adopting the cost approach in a machinery and equipment valuation, a CPV shall:

    (a) specify the replacement cost of the machinery and equipment including necessary and reasonable cost, profit, and related taxation arising from the acquisition and building of the equipment, etc. A CPV shall reasonably determine the components of replacement cost;

    (b) specify that the replacement cost be classified into renewal replacement cost and restore replacement cost. A CPV shall give priority to the use of renewal replacement cost;

    (c) understand the physical, functional and economic obsolescence of the machinery and equipment, and of any factors that may lead to the

the engineering cost allocation, the construction cycle, and earnings. The CPV shall accrue this knowledge through his/her understanding of, among other technical information, the property's design budget, engineering blueprints, settlement information of completion, budget quota standards, and an on-site inspection of the real property based on the value properties and assets characteristics of the real property.

20. When performing real property valuation assignments, a CPV shall be aware of the effects of the neighbourhood, leasing limitations, and personal property on the value of the real property.

21. When using a real property valuation report issued by another valuation firm, a CPV shall perform the necessary analysis and judgments on its valuation conclusion of the real property, and make suitable use of this analysis.

Chapter 4 Valuation Approaches

22. When performing real property valuation assignments, a CPV shall analyse the appropriateness of three fundamental approaches including the income approach, the market approach and the cost approach as well as the appropriateness of the derivative methods, among others, such as the hypothetical-development method and the benchmarking land price-scale method, and select one or more of these fundamental approaches based on relevant conditions. Relevant conditions include the purposes of valuation, the valuation object, the basis of value, the status of information collection, etc.

23. When adopting the market approach in a real property valuation, a CPV shall collect sufficient transaction cases. The information in the transaction cases typically includes:

    (a) the basic information of the transaction case, including the name, location, the four boundaries, the area, purposes, status of ownership, shape of the land, useful lifecycle of the land, the completion date of the building, the structure of the building, the surrounding environment, etc;

    (b) the date of completion;

    (c) the price of transaction, including the total price, unit price and the valuation method;

    (d) the terms of payment; and

    (e) transaction conditions, which mainly include the purposes of the transaction, means of the transaction, tax settlement means of the transaction, special interests between the transaction parties, special trading intention, etc.

24. Transaction cases used for reference shall meet the following conditions:

    (a) they are similar to the valuation object in respect to the location, purposes, scale, building structure, grade, nature of interests, etc;

    (b) the date of completion is close to the date of valuation;

    (c) the type of transaction is comparable to the purpose of valuation; and

    (d) the transaction price is a normal price or can be revised to a normal price.

25. When adopting the market approach in a real property valuation, a CPV shall carry out amendments on transaction conditions, on the transaction date and on real property conditions.

    Amendments on transaction conditions are defined as revising the price of the reference in an actual transaction to that in a normal transaction. Amendments on transaction dates are defined as revising the transaction price of the reference, on the date of the transaction day to the value on the valuation date. Amendments on the real property conditions are defined as revising the price under the conditions of the reference to the price under the conditions of the valuation object. Amendments can be classified as adjustments on the geographical status, on the interest status and on the physical status of the real property.

26. When adopting the income approach in a real property valuation, a CPV shall understand the following matters:

    (a) the real property shall possess economic earnings or potential economic earnings;

    (b) the future earnings and risk of the real property can be reasonably predicted and quantified accurately;

    (c) the future earnings of the real property shall be the earnings generated by the real property itself; and

    (d) the future earnings of the real property include tangible and intangible assets.

27. When adopting the income approach in a real property valuation, a CPV shall reasonably ascertain the beneficial period, net earnings and discount rate:

    (a) the beneficial period shall be determined on the basis of sensible basis parameters including the remaining economic lifecycle of the building and remaining period of land-use rights in compliance with the provisions of relevant laws and regulations;

    (b) the reasonable expectation of future earnings and risks shall be considered when determining the profit; and

    (c) the discount rate is related to the means of earning revenue, means of revenue forecasting, and risk conditions of the real property. The discount rate may differ as a result of the difference in the property's components. The calculation of the discount rate shall be in line with that of its expected earnings.

approach, the market approach, and the cost approach and select one or more of the appropriate fundamental approaches based on relevant conditions, such as the purposes of valuation, the valuation object, the basis of value and the status of information collected.

25. When adopting the income approach, a CPV shall:

(a) focus on the analysis of the predictability of an intangible asset's economic revenue. The CPV shall also consider the appropriateness of the income approach based on the application of intangible assets to be valued, or historically similar assets, as well the future prospects of applications that share the operating conditions of an enterprise in which the intangible assets are implemented (or are intended to be implemented). All such considerations shall be based on the relevant information obtained regarding the intangible assets;

(b) reasonably estimate the expected income brought by intangible assets and distinguish the income generated by the intangible assets from that of other assets; analyse the relevant expected changes, the beneficial period, and the costs, auxiliary assets, cash flow and risk factors related to the revenue;

(c) maintain consistency between the measurement of expected future income and that of the discount rate;

(d) reasonably estimate the discount rate of intangible assets, which shall be different from that of a corporation or other assets, based on factors including the risk factors and the time value of currencies arising from the process of implementation; and

(e) reasonably ascertain the beneficial period by comprehensively analysing the remaining economic lifecycle of the intangible, their legal life and other relevant factors.

26. When adopting the market approach, a CPV shall:

(a) consider the appropriateness of the market approach based on the existence of an active market for intangible assets or similar intangible assets;

(b) collect information on transactions of similar intangible assets, including market prices, times of transaction, transaction conditions, etc;

(c) select transaction cases of comparable intangible assets with a reasonably comparable basis; consider historical transaction conditions, and focus the analysis on whether there is comparability between intangible assets to be valued and transaction cases with respect to asset characteristics, profitability, competitiveness, technical standards, maturity, risk profile, etc;

(d) collect the previous transaction information of the valuation object; and

(e) carry out necessary adjustments to the comparable transaction cases and historical transaction information of intangible assets to be valued, based on the development of macroeconomics, transaction conditions, trading time, sector and market factors and changes brought by the implementation of intangible assets.

27. When adopting the cost approach, a CPV shall:

(a) take a full account of the relevance of the value and the cost of intangible assets and offer proper consideration of the appropriateness of the cost approach, based on all contributions arising from the intangible assets to be valued;

(b) judiciously determine the replacement costs of the intangible assets, which shall include reasonable costs, profits and relevant taxation; and

(c) obtain reasonable assurance as to the depreciation of intangible assets.

28. When adopting various valuation approaches on the same intangible asset, a CPV shall analyse each preliminary valuation conclusion to reach a reasonable valuation conclusion.

Chapter 6 Disclosure Requirements

29. When performing intangible asset valuation assignments, a CPV shall, according to Valuation Standard – Valuation Reports, prepare a valuation report and provide appropriate disclosures after performing the requisite valuation procedures.

30. When performing intangible asset valuation assignments, a CPV shall disclose necessary information in the valuation report so the users of the valuation report can reasonably understand the valuation conclusion.

31. A CPV shall specify the following in a valuation report:

(a) the nature, legal attributes and restrictions of the intangible assets;

(b) geographical restrictions, sector restrictions and limiting conditions imposed by laws and regulations on the implementation of the intangible assets;

(c) macroeconomics and the prospects of the industry;

(d) the history, current status and future prospects of the intangible assets;

(e) beneficial period of intangible assets;

(f) source of information adopted in the valuation; and

(g) other necessary information.

32. A CPV shall clearly state the basis of value of intangible assets and define that basis in a valuation report.

Chapter 3 Operational Requirements

10. When performing jewellery valuation assignments, a CPV (jewellery) shall specify the valuation object, scope of the valuation, purposes of valuation, valuation date, appropriate basis of value, and intended users of the valuation report.

11. When performing jewellery valuation assignments, a CPV (jewellery) shall perform the basic valuation procedures, and formulate and apply specific valuation procedures after taking the precise conditions of the jewellery valuation assignments into consideration pursuant to the Valuation Standard – General Standard.

12. When performing jewellery valuation assignments, a CPV (jewellery) shall inspect the real object of the jewellery in order to verify the existence of the jewellery.

13. When performing jewellery valuation assignments, a CPV (jewellery) shall be aware of the ownership of the jewellery and oblige the client or other concerned parties to provide verification regarding the ownership of the jewellery. A CPV shall carry out further necessary verification of information related to the ownership of the jewellery.

14. When performing jewellery valuation assignments, a CPV (jewellery) shall carry out a valuation on and grading of the jewellery. When performing the valuation and grading, a CPV shall adopt the corresponding national standards and industry standards. If there are no corresponding national standards and industry standards, a CPV (jewellery) could adopt the internationally accepted grading system and specify that adoption in the valuation report.

A CPV (jewellery) could use the valuation and grading conclusion issued by a qualified jewellery quality-assurance institution.

15. When performing jewellery valuation assignments, a CPV (jewellery) shall be aware of the difference in value of the same jewellery in different markets and selectively identify the appropriate market grade according to the specific conditions of the valuation object.

16. A CPV (jewellery) shall acquire market information and other related information of the jewellery through appropriate means and verify the authenticity and reliability of that information.

17. When performing jewellery valuation assignments, a CPV (jewellery) shall, according to the specific conditions of the valuation object, reasonably collect and select data. Emphasis shall be placed on:

(a) history, current status and supporting information of the valuation object;

(b) previous valuations and transactions of the valuation object;

(c) information of the market price and transactions of identical or similar jewellery objects;

(d) the supply-demand relationship, scarcity and market outlook of the valuation object, etc;

(e) macroeconomic conditions that may affect the price of jewellery; or

(f) other related information.

18. When performing jewellery valuation assignments, a CPV (jewellery) shall consider the effect of quality and other factors of the jewellery on the value of the valuation object, including its origin, history, previous possession by celebrities, design by masterful artist, brand, scarcity, etc.

19. When performing jewellery valuation assignments, a CPV (jewellery) may determine the valuation assumptions according to the purposes of valuation and the specific condition of the jewellery, and disclose the effect such assumptions would place on the valuation conclusion.

Chapter 4 Valuation Approaches

20. When performing jewellery valuation assignments, a CPV (jewellery) shall analyse the appropriateness of the three fundamental approaches including the market approach, the cost approach and the income approach and select an appropriate valuation methodology based on relevant conditions, such as the valuation object, the basis of value and the status of information collection, etc.

21. When adopting the market approach, a CPV (jewellery) shall:

(a) verify the existence of an open and active market if it is possible to acquire a sufficient amount of comparable sales data and the reliability of that data;

(b) collect prior transaction information of the valuation object as well as transaction information of identical or similar jewellery;

(c) identify identical or similar jewellery as a reference and thoroughly identify the comparable nature of the price factors;

(d) identify a suitable trading market as the basis of valuation according to the specific conditions of the valuation object; and

(e) analyse and adjust the transaction information and relevant information of identical or similar jewellery according to the differences between the valuation object and the reference, as well as the distinctions in other factors including market grading and trading conditions, etc.

22. When adopting the cost approach, a CPV (jewellery) shall:

(a) analyse the duplicability and the re-productivity of the jewellery to be valued and consider the appropriateness of the cost approach;

(b) reasonably determine the major components of replacement cost and identify the replacement cost of the jewellery, including its raw material costs, production costs, relevant taxes, reasonable profit and any other costs;

(d) information related to the business plan, development plan and future income forecast of the business;

(e) previous valuation and transaction information of the valuation object and the business to be valued;

(f) information related to macroeconomic and regional economic factors that affect the management of the business;

(g) present conditions and development prospects of the industry in which the business operates;

(h) information related to markets, such as the securities market, property rights trading market, etc; and

(i) information of comparable businesses, such as the financial information, share price, equity market price data, etc.

15. A CPV shall, to the best of his/her ability, obtain the audit report of each of the business to be valued and of comparable businesses.

A CPV shall conduct a necessary analysis of, and make professional judgment on the financial statements, regardless of whether or not they are audited.

16. When performing business valuation assignments by adopting the income approach and the market approach, a CPV shall carry out the necessary analysis and adjustments according to relevant conditions, such as valuation object, basis of value, etc. The analysis and adjustments shall be based on the information obtained through negotiations with the client and other concerned parties, to reasonably reflect the financial position and the profitability of the business.

According to the specific conditions of the business valuation, the items to be analysed and adjusted include:

(a) basis of financial statements;

(b) non-recurring income and expenses; and

(c) non-operating assets, liabilities and excess assets and other relevant income and expenses.

17. When performing business valuation assignments by adopting the income approach and the market approach, a CPV shall communicate with the client and other concerned parties in order to understand the allocation and use of corporate assets. Non-operating assets, liabilities and surplus assets shall be identified carefully and analysed and assessed independently.

18. A CPV shall be aware that the value of the valuation object as a going concern is not necessarily greater than that following liquidation.

If a relevant interested party has the ability to commence liquidation procedures, a CPV shall analyse the value of the valuation object to determine whether the following liquidation would exceed the value as a going concern according to the valuation.

19. When a CPV conducts a business valuation for a business that is engaged in a variety of business types or a number of sectors, the business units shall be reasonably defined according to the relevancy between businesses. The valuation shall be conducted based on appropriately generated financial data, in accordance with the specific circumstances of the business to be valued and the business units.

20. A CPV shall be aware that the value of partial shareholder's interests is not necessarily equivalent to the product of value of the entire equity interests and the shareholding ratio.

When valuing partial shareholder's interests, a CPV shall, when appropriate and practicable, consider the premium or discount that may arise from having control or a lack of control, respectively. The CPV shall disclose whether the valuation conclusion has taken into account the influence of control on the value of the valuation object in the valuation report.

21. When performing business valuation assignments, a CPV shall combine the valuation approaches adopted and consider the influence of liquidity on the value of the valuation object. In the event that the liquidity has a significant effect on the value of the valuation object, the CPV shall consider that liquidity accordingly.

A CPV shall disclose whether the valuation conclusion has considered the influence of liquidity on the value of the valuation object in the valuation report.

Chapter 4 Valuation Approaches

22. When performing business valuation assignments, a CPV shall analyse the appropriateness of the three fundamental approaches, including the income approach, the market approach and the cost approach (asset-based approach). The CPV shall then select one or more of the appropriate fundamental approaches based on relevant conditions, such as the purposes of valuation, the valuation object, the basis of value, the status of information collection, etc.

23. The income approach in business valuation refers to the valuation approach of determining the value of the valuation object by capitalising or discounting the expected income.

A CPV shall assess the appropriateness of the income approach by considering, as a whole, the operating history of the business, the predictability of future income and the sufficiency of the valuation data obtained.

24. Specific methods commonly used by the income approach include the discounted dividend method and the discounted cash-flow method.

25. The discounted dividend method refers to a specific method of determining the value of the valuation object by discounting the expected dividends, and is usually appropriate to appraise the value of partial shareholder's interests lacking control.

Chapter 2 Basic Requirements

5. Valuation firms that issue valuation reports for financial reporting purposes shall be accredited with valuation qualification certificates issued by the Ministry of Finance.

6. A CPV shall comply with relevant laws, regulations and Valuation Standards; adopt the principles of independence, objectivity and integrity; act diligently, and observe proper professional due care. The CPV shall avoid any substantial omissions that would have a material effect on valuation conclusions and shall never take a pre-determined value as the valuation conclusion.

7. A CPV shall carry out valuation assignments independently; analysing, estimating and formulating professional advice without influence from any department, social corporation, enterprise or individual.

The valuation firm, CPV, business assistants and external experts shall not have any direct interest in the client and other related parties.

8. When performing valuation assignments for financial reporting purposes, a CPV shall understand the concepts and principles of relevant accounting standards, be aware of the relations and differences between the concepts and principles under the accounting standard, and understand the relevant concepts and principles under the Valuation Standards. A CPV shall possess the expertise, experience and competencies required to perform a valuation after receiving specialised training.

The CPV shall be aware of the complexity of a valuation assignment for financial reporting purposes, and consider carefully whether it shall be undertaken with reference to his/her expertise and experiences.

9. When performing valuation assignments for financial reporting purposes, a CPV shall issue a valuation report for financial reporting purposes under the name of his/her valuation firm.

When valuation procedures or conditions are constrained and a CPV may not be able to ascertain the reasonableness of the valuation conclusion, then a valuation report shall not be issued. The CPV shall notify the client regarding the reliability of fair values or specific value measurements under the accounting standards.

10. If the requirements set out in the Application cannot be obeyed in full because of amendments to accounting standards and relevant laws and regulations, a CPV shall illustrate these circumstances in the valuation report.

11. When performing valuation assignments for financial reporting purposes, a CPV shall engage in necessary communications with the corporation and the certified public accountants that perform auditing assignments to specify the basic terms of the assignment, and to fully understand the specific accounting standards requirements, relevant specific accounting, and disclosure requirements.

12. A CPV shall remind the client to reasonably determine the valuation date in accordance with the relevant requirements of the accounting standards. The

valuation date may be the balance sheet date, the date of acquisition, the date of impairment test, the date of initial implementation, etc.

13. When performing valuation assignments for financial reporting purposes, a CPV shall obtain sufficient information for careful analysis and ascertain that the source of information is reliable and proper.

14. A CPV shall determine relevant valuation assumptions according to specific conditions of valuation assignments and ascertain that these assumptions are supported through reasonable grounds.

15. When performing valuation assignments for financial reporting purposes, a CPV could engage a relevant specialist for assistance, given that necessary measures must be taken to ensure the reasonableness of the work performed by the specialist.

16. A CPV shall be responsible for the analysis, estimates and professional opinions rendered on the fair values or specific values of the valuation object for the purpose of financial reporting on the valuation date, in compliance with relevant laws, regulations and Valuation Standards.

The client and other concerned parties shall provide information necessary for valuation, and be liable to the authenticity, legality and completeness of the information.

Both the client and relevant parties are responsible for the proper use of valuation reports for financial reporting purposes.

Chapter 3 The Valuation Object

17. When performing valuation assignments for financial reporting purposes, a CPV shall consult with the client to specify the valuation object and fully consider the effects of valuation object's characteristics on the valuation, such as its legal, physical and economic conditions, etc.

Based on the specific conditions, the accounting standards and the requirements of the client, the valuation object could be different kinds of single assets or liabilities or cash generating units or a portfolio of cash generating units.

18. A CPV shall be aware of the valuation object as it corresponds to a specific accounting item under the accounting standards, and shall obtain details of the valuation object from the client, including its actual composition. The CPV shall be aware of the effects of relevant assets and liabilities on the business operations, and recommend that the corporation's management provide the proper classification of relevant assets and liabilities in accordance with the business intention, requirements of the accounting standards and accounting requirements.

19. When carrying out a valuation assignment related to a purchase price allocation under a business merger, a CPV shall be aware that, according to the accounting standards, the corresponding valuation object shall be the acquirer's

identifiable acquired assets, liabilities and contingent liabilities assumed in the merger, and that these are different from the corresponding valuation object in the business valuation of the acquirer.

A CPV shall be aware of the identification and extent of each identifiable intangible asset.

20. When carrying out a valuation assignment related to impairment testing of various assets, including goodwill, a CPV shall be aware that according to the accounting standards, the valuation object may be a single asset, cash generating unit or a portfolio of cash generating units. In addition, a CPV shall be aware that for impairment testing of fixed assets, the valuation object generally appears in the form of a group of assets; while, for impairment testing of goodwill, the valuation object mainly appears in the form of a cash generating unit or a portfolio of cash generating units.

21. When carrying out a valuation of investment properties according to the accounting standards, a CPV shall be aware that the corresponding valuation object is the leased land use rights, the land use rights to be transferred after value increment, and the leased buildings.

A CPV shall consider the effect of any existing short-term or long-term lease of investment properties on the valuation of fair value, including the tenancy, method of rent collection, difference between the agreed rent and the market rent, etc.

22. In the course of a valuation of the fair values of financial assets and liabilities, a CPV shall consider issues with material effects, including whether a single asset or a group of assets is regarded as the measurement unit, the classification of assets accounting, whether mutual financial instruments shall be separated, etc.

Chapter 4 Basis of Value

23. When performing valuation assignments for financial reporting purposes, a CPV shall specify the basis of value according to the accounting standards or related conditions, including the specific accounting or disclosure requirements or the valuation object, and thereby define the specific basis of value.

24. When measurement criteria prescribed in the accounting standards are met, the fair value under the accounting standards is generally consistent with the market value under the Valuation Standards. The measurement criteria set out in the accounting standards, including the replacement cost or net replacement cost, net realisable value or the net amount of fair value less costs of disposal, and present value or present value of expected future cash flows can be recognised or accepted as types of valuation.

25. When assisting an enterprise in carrying out impairment testing for assets, a CPV shall consider the recoverable amount of the valuation object on the date of impairment testing, the relations and differences between the present value of

expected future cash flows, and the net amount of the fair value less costs of disposal. In addition:

(a) a CPV shall understand that the recoverable amount is equivalent to the present value of expected future cash flow of the asset, or the net amount of fair value less costs of disposal (whichever is higher). If either the present value of expected future cash flow of the asset or the net amount of fair value less costs of disposal is confirmed to be excess of the corresponding carrying amount, together with the passing of the impairment testing, a CPV may not have to develop another value;

(b) when assisting in the calculation of the present value of expected future cash flow of the asset, a CPV shall understand that the calculation of the expected future cash flow of the asset is based on the potential realizable revenue under the existing management model. Therefore, in general, the remaining economic life of a single asset or major asset items in a group of assets under simple maintenance only will be considered. In other words, improvement or replacement of a single asset or major asset items of a group of assets will not be considered. The net realizable value of an asset item in a group of assets at the end of the projection period shall be included in the calculation of the present value of the expected future cash flow; and

(c) when assisting in the calculation of the net amount of fair value less costs of disposal, a CPV shall understand that the agreed selling price in an arm's length transaction, or the prices in active markets for assets identical or similar to the valuation object, is permitted under the accounting standards to form the basis for the calculation of fair value.

When lacking of active market or market information, a CPV may make reasonable decisions regarding a single asset or a group of assets, based on the capacity of the enterprise as a market participant. In addition, with proper consideration of the projection submitted, based on premises of effective allocation, improvement or replacement of a related asset or a group of assets, a CPV shall analyse and calculate the fair value of a single asset or a group of assets, with reference to the basic concepts and methodologies of the business valuation.

When calculating the net amount of fair value less costs of disposal, a CPV shall reasonably estimate the costs of disposal based on the specific requirements under the accounting standards.

26. Net replacement cost refers to the estimated amount of cash or cash equivalents required for purchasing identical or similar assets, less the expected amount related to depreciation factors, which mainly include physical deterioration, functional obsolescence and economic obsolescence.

(d) property rights registration certificates of the client and the unit to be valued;

(e) major ownership certificates involved by the valuation object;

(f) letters of commitment of the client and concerned parties;

(g) letters of commitment of the signing CPVs;

(h) qualification certification of the valuation firm;

(i) a copy of the corporate business licenses of the valuation firm;

(j) qualification certifications of the signing CPVs;

(k) the major basis for price discrimination (such as contract, agreement);

(l) engagement letter of the valuation assignment; and

(m) other important documents.

27. The content and the relevant signatures and seals of the attachment of the valuation report shall be clear and complete. Relevant content shall be consistent with the summary and the main body of the valuation report. In the event that the attachment of the valuation report is a copy, it shall be consistent with the original.

28. In the event that a separate audit is conducted in accordance with relevant provisions, the special auditor's report (including accounting reports and notes), issued on the valuation date corresponding to the economic activity provided by the enterprise, shall be attached to the valuation report. In the event that a separate audit is not required in accordance with relevant provisions, the corporate financial statements issued on the valuation date, corresponding to economic activity confirmed by the enterprise, shall be attached to the valuation report.

29. In the event that a report conclusion issued by other institutions is quoted, pursuant to the existing provisions, the report that is quoted shall be approved (filed) by the concerned authorities. Approval (filing) documents issued by the authorities concerned shall be attached to the valuation report.

Chapter 5 Valuation Detail List

30. When performing a valuation of a single asset or asset portfolio or adopting an assets-based approach in a business valuation, a valuation statement shall be prepared.

A CPV may prepare a valuation statement based on the basic requirements of a valuation statement, as set out in the Application and in accordance with the accounting elements as stated in the business accounting practice.

A valuation statement shall include the accounting elements of assets and liabilities to be valued and shall provide a ledger of each and every level.

31. The basic requirements on the presentation format and content of a valuation detail list for the accounting elements of assets and liabilities to be valued are:

(a) the header shall contain the names of the types of assets and liabilities to be valued (accounting elements), the unit to be valued (or holding unit of the property rights), the valuation date, list number, currency and page numbers;

(b) the list shall contain basic content including the name of assets and liabilities (breakdown), business operations or matters, technical parameters, dates of occurrence (acquisition, construction, creation), carrying amount, valuation, change of valuation, etc. If necessary, a column of remarks will be available for an explanation of technical parameters or business operations; and

(c) the footer shall state the personnel responsible for the unit to be valued, the personnel responsible for completing the form, the date of completion and the valuation personnel (holding unit of the property rights).

32. A valuation detail list shall be recorded level-by-level in accordance with the accounting elements and Level 1 elements. A ledger for the valuation, in the form a balance sheet (preparation method), and a ledger for the valuation results, presented in "10 thousand RMB" shall be prepared.

The footer shall indicate the valuation personnel by the ledgers required for different levels.

33. The accounting provision for impairment shall be consolidated and stated under relevant accounting elements (assets and liabilities). Changes of the valuation before and after the accounting provision for impairment accounting shall be stated respectively.

34. The ledger for valuation results shall be presented according to the following sequence and content: current assets, non-current assets, total assets, current liabilities, non-current liabilities, total liabilities, net assets, etc.

35. In the event that there are more than two units to be valued, the accounting statement for each unit to be valued (or holding unit of property rights) shall be presented separately.

Chapter 6 Technical Statement

36. The technical statement shall include: the appraiser's affidavit on the scope of use of the technical statement, a "Description of matters related to performing a valuation of a business" jointly compiled by client and the unit to be valued (or the holding unit of the property rights), and an "Asset Technical Statement" written by the CPV(s).

37. The technical statement shall be complete and presented in clear and unambiguous language, taking into full consideration the characteristics of different economic activities and valuation approaches.

(j) the valuation assumptions;

(k) the valuation conclusion;

(l) explanation of extraordinary issues;

(m) explanation of restrictions on use of the valuation report;

(n) date of the valuation report; and

(o) signatures and seals.

11. The introduction usually contains the following text in the following presentation format:

> xxx (Full name of the client):
>
> xxx (full name of the valuation firm) has been appointed by xxx (full name of the client), via the valuation method, xxx (name of method), and in accordance with the required valuation procedures, to perform a valuation for xxx (full name of the client) with regard to xxx dealing-related (matters) xxx (assets – individual assets or asset groups, enterprises, the entire or partial shareholder's interests) according to the value as of DD-MM-YYYY pursuant to the relevant laws, regulations, valuation standards, and valuation principles. The valuation procedure results are reported below.

12. The main body of a Valuation Report shall present an overview of the client, the unit to be valued and any users of the valuation report, other than the client, as set out in the engagement letter. Also:

(a) the overview of valuation report users of engagement letters and clients generally include the enterprise name and its abbreviation, place of domicile, legal representatives, registered capital, shareholding structure, major business scope, etc.

In the event that the client and any users of the valuation report, other than the client, as set out in the engagement letter, are referred as the same unit as the unit to be valued, the introduction shall be written according to the requirements imposed by the unit to be valued;

(b) the overview of the unit to be valued shall be prepared in accordance with the following requirements:

(i) in a business valuation, the overview of the unit to be valued shall generally include:

(i.i) the name and abbreviation, domicile, legal representatives, major business scope, operating products, registered capital, acquired permits for financial business or the approval documents for accessing administrative departments, list

of corporate shareholders and their shareholding ratio, changes in corporate equity, other historical development of the enterprise, etc;

(i.ii) the introduction of major shareholders of the unit to be valued shall generally include the name, domicile, legal representatives, major business scope, registered capital and operating results of the major shareholders;

(i.iii) the introduction of the financial accounting system of the enterprise, assets, financial position and operating conditions of the three most recent years;

(i.iv) the composition of subsidiaries, branches and main departments of the enterprise, and the presentation of the shareholding structure and ratio of subsidiaries at different levels in an appropriate method; and

(i.v) the characteristics of the operation of the enterprise, for example: the type, scale and quality of credit assets, the location and distribution of branches and marketing position of a bank, etc; major insurance products, premium income, claims situations and marketing position of an insurance company, etc; scale and income ratio of brokerage business, self-employed business, and underwriting business; the number and distribution of branches and the market position of a securities company, etc; and

(ii) in a valuation of single asset or asset portfolio, the overview of the unit to be valued shall generally include the name and abbreviation, domicile, legal representatives, registered capital, shareholding structure, and major business scope, etc; and

(c) the relationship between the client, the unit to be valued and any users of the valuation report, other than the client, as set out in the engagement letter, including relationships of property rights, transaction relationships, etc. In the event of a related-party transaction, basic matters including the related parties and method of transaction shall be illustrated.

13. The Valuation Report shall illustrate the purpose of the valuation and its corresponding economic activity, and explain the relevant situation in which the economic activity is approved, or any other grounds of such economic activity.

14. The Valuation Report shall provide a specific description of the valuation object and illustrate the scope of the valuation using explanatory measures, including text and tables.

(b) in a valuation of single assets or an asset portfolio, the carrying amount and valuation and their changes shall be expressed in words;

(c) in a business valuation in which two or more than two valuation methods are adopted, other than explaining the valuation and its changes, the differences between the results of the chosen valuation approaches, the rationale for choosing these valuation methods, and the process by which the final valuation conclusion is determined shall be described;

(d) for an assignment that involves a number of units to be valued, the valuation of each unit shall be described individually;

(e) when quoting the conclusion of a report issued by other institutions, a Valuation Report shall disclose details including the reasons for quotation, the processes of quotation, the issuing party, the reference number and conclusion of the report quoted, and also explain any relevant liabilities that could develop as the result of a misquotation; and

(f) under special circumstances, the valuation conclusion can be expressed as a range, and the valuation report can whereby recommend a valuation conclusion with a definite numerical value, subject to the correspondence between the valuation conclusion and the economic activity.

22. A Valuation Report shall explain any extraordinary issues including limitations imposed on the valuation procedures, special treatment adopted in the valuation, defects of the valuation conclusion, subsequent events, etc. The following is information is also usually included:

(a) limitations imposed on the valuation procedures due to incomplete or defective ownership information, or incomplete valuation information, etc;

(b) contingencies including legal and economic matters on the valuation date;

(c) the nature, amount, and relationship with the valuation object of contingent liabilities (or contingent assets);

(d) the realisation, by the unit to be valued, of the industry's regulatory indicators as communicated by relevant government authorities of the state;

(e) matters which may significantly affect the valuation conclusion in the period from the valuation date to the date of the valuation report, including the interest rate, the exchange rate, changes in the market price of the financial products, and any changes of the regulatory policies of the state to financial enterprises, etc;

the defects of the economic activity, corresponding to the valuation, which may prompt a significant effect on the valuation conclusion; and

(f) a valuation Report shall describe the treatment of extraordinary issues, the potential effect of these issues on the valuation conclusion, and remind the intended users of the valuation report to be aware of their effect on the economic activity.

23. A Valuation Report shall describe the restrictions on the use of the Valuation Report, which usually includes the following:

(a) the Valuation Report shall be used solely for the purposes described in the Valuation Report;

(b) the extraction, quotation or disclosure to the public media of all or any part of the contents contained, will be subject to review of relevant content by the valuation firm, unless required otherwise as dictated by laws and administrative regulations or, agreed between other concerned parties;

(c) the validity of the use of the valuation conclusion; and

(d) limitations on the use of the Valuation Report due to the restrictions imposed on the valuation procedures.

24. The date of the Valuation Report shall be stated in the Valuation Report.

The date of the Valuation Report shall usually be the date that the CPV expresses his/her ultimate professional advice.

25. The main body of the Valuation Report shall be signed and sealed by no less than two (including two) CPVs, and sealed by a valuation firm. The Valuation Report shall be signed by the legal representatives of the valuation firm under limited liability or under the partners responsible for such valuation assignments by the valuation firms under partnership.

Legal representatives of valuation firms under limited liability may authorise the chief valuer, or other CPV certificate holders who are management personnel in the position of deputy general manager or above, to sign on the valuation report.

Valuation firms that are under limited liability may authorise its branches to issue Valuation Reports (excluding Valuation Reports related to securities and futures) in the name of the branches, and to seal such reports under the common seal of the branch. Legal representatives of the valuation firms may authorise the responsible officer of the branches to sign on the valuation report that is issued in the name of the branches.

The appraiser's affidavit, the summary, and the valuation detail list shall generally not require any further signing or sealing.

12. A valuation firm shall establish a project manager system for valuation assignments. The project manager shall fulfil the following criteria:

(a) be qualified as a certified public valuer; and

(b) possess the ethics, expertise, practice competencies and professional experiences to carry out the duties.

The valuation firm shall assign a project manager for each valuation assignment. The appointment of a shareholder (or a partner), or a director, as the project manager shall be subject to the characteristics of the assignment.

13. The project manager shall bear the following responsibilities:

(a) formulate a valuation plan and coordinate its implementation;

(b) provide coordination and communication throughout the valuation assignment;

(c) report on important information related to the valuation assignment in accordance with procedures;

(d) organise the work of members of the project reviewing team;

(e) analyse and assess the experts' findings to ascertain their reasonableness;

(f) coordinate the preparation of the valuation report and the review of relevant content;

(g) the Signature and seal on the valuation report to be issued;

(h) coordinate and handle all feedback after the submission of the valuation report; and

(i) coordinate the filing of work papers of the valuation assignment.

14. Review officers of a project shall fulfil the following requirements:

(a) possess the technical expertise to carry out duties;

(b) possess with the experience and authorisation required for the review; and

(c) ensure the objectivity of the review.

15. Review officers of the project shall bear the following responsibilities:

(a) review the implementation of valuation procedures;

(b) review the valuation report to be issued;

(c) review work papers; and

(d) assess the overall risks of the project and provide a clear opinion of the issuance of the valuation report.

16. Members of the project team generally include CPVs and business assistants that undertake or participate in the project work of the valuation assignment. Members of the project team shall bear the following responsibilities:

(a) under the leadership of the project manager, understand the objective of the assignment and follow the project manager's instructions;

(b) carry out specific work on the valuation assignment, in accord with the quality control policies and procedures of the valuation firm for compiling working papers;

(c) report serious issues found in the course of the business procedures; and

(d) review completed work papers to be audited.

17. A valuation firm shall specify the responsibilities of other staff members to be covered under the quality control system. These usually include:

(a) staff for business negotiation;

(b) personnel in charge of business departments;

(c) personnel in charge of branches;

(d) staff for human-resource management;

(e) staff for information management;

(f) staff for file management; and

(g) secretarial staff.

Chapter 3 Ethics

18. A valuation firm shall develop policies and procedures to ensure the compliance of the valuation ethical standards by all staff members.

19. The policies and procedures formulated by a valuation firm shall emphasise the importance of the valuation ethical standards, which shall be strengthened by the following means:

(a) demonstration by management;

(b) education and training;

(c) supervision; and

(d) appropriate handling of any violations of the valuation ethical standards.

20. A valuation firm shall adhere to the principles of independence, objectivity and fairness, in accord with the requirements set out in the valuation ethical standards. In respect to the characteristics of specific valuation assignments, a valuation firm shall:

(a) conduct an analysis and judgment on relationships and other factors that may affect independence and objectivity and minimise or eliminate any threats against independence and objectivity, going so far as to abandon the valuation assignment should it be necessary;

(c) appropriateness of the valuation approaches and reasonableness of valuation parameters; and

(d) compliance of the valuation report.

39. Control policies and procedures developed by a valuation firm for the quotation of the conclusion of other professional reports shall generally include the following:

(a) good knowledge of the institutions and staff that issue the report;

(b) appropriate attention paid to the professional reports to be quoted; and

(c) conditions and methods of quotation and the disclosure of these quotations in the valuation report.

40. Control policies and procedures developed by a valuation firm for resolving problematic issues and disputes shall generally include:

(a) consultations with relevant personnel who have the qualifications and experience in resolution management inside or outside the valuation firm; and

(b) handling any disagreement that may arise throughout the course of the project.

A valuation firm may not issue a valuation report until a conclusion is reached with respect to any disagreements that arise over the course of the project.

41. A valuation firm shall develop control policies and procedures that require project managers to guide and supervise the work of the project team members, and to apply control to the following:

(a) establishment and management of the project team;

(b) time schedule for the assignment;

(c) communication of the assignment;

(d) risk of the assignment; and

(e) cost of the assignment.

42. A valuation firm shall supply a dedicated department or dedicated position to carry out internal reviews of valuation assignments. The policies and procedures of internal reviews shall ensure that all assignments are reviewed. Policies and procedures for internal review shall include the following:

(a) workflow of internal review;

(b) professional requirements for project reviewers; and

(c) timing, scope and method of the review.

43. A valuation firm shall develop policies and procedures for the signing and issuance of valuation reports.

Policies and procedures for the signing and issuance of valuation reports shall regulate the relevant quality measures undertaken by a valuation firm. Should any problems occur (including defects and errors found in a valuation report after submission), these quality measures should remedy the negative effects of the problem.

Chapter 8 Supervision and Improvement

44. A valuation firm shall develop policies and procedures to supervise the operation of the quality control system. Supervision shall focus on the following:

(a) whether the quality control system conforms to the requirements set out in the Application and the practical situation of the valuation firm;

(b) whether the quality control system has reached the target quality; and

(c) whether the quality control system is being effectively implemented and maintained.

45. The measures taken by a valuation firm to supervise the operation of the quality control system mainly include:

(a) establishing an information system to collect, manage and use relevant information from different sources to provide grounds for evaluation and improvement of the quality control system;

(b) supervising the operation process of the quality control system; and

(c) conducting regular investigations and evaluations of the operation of the quality control system.

46. For problems and hidden risks discovered during the supervision, the relevant controlling party of the quality-control system shall make undertake appropriate remedies and precautions, and evaluate the effectiveness and efficiency of those measures.

47. A valuation firm shall assess the appropriateness and effectiveness of the quality control system, based on the supervision of the system and other information, and offer recommendations for improvement.

Chapter 9 Documents and Records

48. A valuation firm shall develop policies and procedures on document control to ensure that all documents used in various procedures of the quality control system are valid versions, and to avoid the misuse of documents or information that are invalid or obsolete.

49. A valuation firm shall develop policies and procedures to maintain relevant records, which shall be filed on a timely basis, for business quality control.

and shall possess the expertise, experience and competencies required for a non-performing financial assets valuation.

7. In compliance with relevant laws, regulations and Valuation Standards, a valuation firm and a CPV shall carry out valuation assignments independently; analysing, estimating and formulating professional advice without influence from any department, social corporation, enterprise or individuals.

   The valuation firm, CPV, business assistants and external experts shall not have a stake in the client, assets owners and other related parties.

8. A CPV shall determine relevant assumptions and limiting conditions according to the specific circumstances of the valuation assignment, shall ascertain that these assumptions and the limiting conditions are supported by reasonable grounds, shall make explicit disclosures of these assumptions and conditions.

9. A CPV shall understand that valuation business and value analysis business are two different professional services.

   When performing non-performing financial asset valuation assignments, a CPV shall consider performing a valuation only if the necessary valuation procedures can be carried out without any restrictions.

   When performing non-performing financial asset valuation assignments, a CPV may consult with the client about performing a value analysis, in the event that restrictions prevent the CPV from performing the necessary valuation procedures. When performing value analysis, a CPV shall ascertain that the limitations imposed will not affect his/her independence and fairness, or the reasonableness of his/her value analysis conclusion.

10. When undertaking non-performing financial assets valuation assignments, a CPV shall specify the performance of the valuation assignment or value analysis assignment following consultations with the client regarding any specific circumstances of the valuation object, the purposes of the valuation, the method of assets disposal, the availability of valuation information and limitations on the valuation procedures in order to elucidate the basic items of the valuation assignment.

    The CPV shall be aware of the complexity of a value analysis, and carefully consider whether it shall be undertaken with reference to his/her expertise and experience.

11. When consulting the client about whether to perform a valuation or value analysis, a CPV shall consider the following key factors:

    (a) whether sufficient data and information of the valuation object could be obtained within the agreed-on period of time;

    (b) whether the on-site inspection of the valuation object will be subject to any limitations, such as failure of a CPV to carry out necessary on-site valuation procedures (including inspection, investigations, etc) as a result of uncooperative concerned parties or other reasons;

    (c) whether the verification of information related to the legal ownership of the valuation object and its source is subject to any restrictions; and

    (d) the existence of any other matters that a CPV believes may materially affect the formulation of a reasonable valuation conclusion.

12. A CPV shall remind the client and other users of the report of the differences between a valuation assignment and a value analysis assignment.

    A CPV shall clearly explain the conclusion of the valuation or the value analysis and shall remind the client or other users of the report to be aware of the differences between a valuation conclusion and a value analysis conclusion.

    A value analysis conclusion is a professional advice formulated under certain limitations. The client and other users of the report shall understand that the applicability of a value analysis conclusion, as a reference, is different from a valuation conclusion.

13. The valuation conclusion and the value-analysis conclusion reflect the value and the realisable value of the valuation object on the valuation date.

    A CPV shall remind the users of the reports to reasonably determine a valid period for both the valuation conclusion and the value analysis conclusion, based on subsequent changes of asset and market conditions after the valuation date.

    The valid period for a valuation conclusion and a value-analysis conclusion shall not, in principle, exceed one year subsequent to the valuation date. If the asset and market conditions have undergone significant changes, compared to the conditions on the valuation date, the client shall commission a valuation firm to update the valuation or carry out a revaluation.

14. The valuation conclusion and the value-analysis conclusion are the professional advice prepared by a CPV in accordance with relevant laws, regulations and Valuation Standards, after carrying out necessary procedures regarding relevant assumptions and limiting conditions.

    The valuation conclusion, or the value-analysis conclusion, is a reference for asset disposal. The conclusions shall not be regarded as a guarantee on the realisable value when disposing non-performing financial assets.

    The client and other users of the report shall understand and use the valuation conclusion or value-analysis conclusion properly. A CPV shall recommend that the client make a reasonable decision with reference to the valuation conclusion or the value-analysis conclusion, coupled with factors including asset disposal solutions, and asset and market conditions during the asset disposal.

15. A CPV shall be responsible for the analysis, estimates and professional opinions rendered on the value or realisable value of the valuation object, on the valuation date, in compliance with relevant laws, regulations and Valuation Standards.

    The client and other concerned parties shall provide necessary information and be liable to the authenticity, legality and completeness of this information.

VALUATION GUIDANCE NOTE ON INVESTMENT REAL ESTATE VALUATION (TRIAL)

Chapter 1 Introduction

1. The purpose of the Valuation Guidance Note for Investment Real Estate (Trial) ("the Guidance Note") is to systematise and regulate the performance of investment real estate valuation assignments by a certified public valuer (hereinafter referred to as a "CPV"), to protect public interests, and to safeguard the legitimate rights and interests of other concerned parties. The Guidance Note are formulated pursuant to the Valuation Standard – General Standard, Valuation Standard – Real Property and Valuation Application for Financial Reporting Purposes (Trial).

2. Investment real estate is defined herein as the investment real estate as defined in the Accounting Standard for Business Enterprise 3 – Investment Real Estate and its implementation guideline. The term refers to real estate held by an enterprise to earn rental, for capital appreciation, or both.

3. Investment real estate valuation is defined herein as the act and process of analysing, assessing and developing a CPV professional opinion on the fair value of investment real estate, fulfilling the conditions prescribed in the Accounting Standards on the valuation date, in accordance with the Valuation Application for Financial Reporting Purposes (Trial), based on the purposes of the valuation.

4. When performing investment real estate value estimation-related assignments, a CPV shall comply with the Guidance Note.

Chapter 2 Basic Requirements

5. When performing investment real estate valuation assignments, a CPV shall diligently comply with the principles of independence, objectivity and integrity. The CPV shall observe proper professional due care, and shall never make any substantial omissions, mistakes or errors that could have a material effect on the valuation conclusion. A CPV shall never adopt a pre-determined value as the valuation conclusion.

6. When performing investment real estate valuation assignments, a CPV shall possess the expertise, experience and competencies required by an investment real estate valuation.

   The CPV shall be aware of the complexity of an investment real estate valuation, and shall consider carefully whether such a valuation can be undertaken, with reference to his/her expertise and experiences.

7. When performing investment real estate valuation assignments, a CPV shall fully understand the relevant accounting standards requirements, the accounting and disclosure requirements of the valuation object in the business financial report, and recommend that the management of the corporation classify the investment real estate in accordance with the business intentions and requirements of the accounting standards.

8. When performing investment real estate valuation assignments, a CPV shall carry out the necessary communications between the corporation and certified public accountants that perform auditing assignments. These communications shall be undertaken in order to understand the specific advice and recommendations, based on the accounting standards, and to analyse the effects of the advice and recommendations on the valuation assignments.

9. A CPV shall remind the client to reasonably determine the valuation date in accordance with the relevant requirements of the accounting standards. The valuation date may be, among other dates, the balance sheet date, the date of exchange of the investment real estate, etc.

10. A CPV shall understand that, when the measurement criteria prescribed in the accounting standards is met, the fair value of investment real estate under the accounting standards is generally equivalent to the market value under the Valuation Standards.

11. When performing investment real estate valuation assignments, a CPV shall carry out on-site inspections to confirm the physical status, interests status and location of the investment real estate.

    A CPV shall oblige the client to provide ownership information of the investment real estate, and to carry out the necessary verification for information related to the ownership.

Chapter 3 The Valuation Object

12. A CPV shall understand the classification of investment real estate according to accounting standards, and shall specify the valuation object with reference to the following requirements under the accounting standards:

    (a) leased land use rights, which refers to the land use rights of the corporation obtained through assignment or transfer and or leased out by way of operating lease;

    (b) land use rights held for transfer upon appreciation, which refers to the land use rights of the corporation obtained and held for transfer upon appreciation. Idle land, as identified under relevant regulations of the PRC, is not considered land use rights held for transfer upon appreciation; and

    (c) leased buildings, which refers to buildings in which the corporation is interested and leased-out by way of operating lease, including self-construct buildings or buildings leased out after development.

13. When performing investment real estate valuation assignments, a CPV shall understand that the valuation object refers to an individual building unit, rather than multiple building units and their ancillary facilities as a whole.