

GUIDELINES ON ASSET VALUATIONS



Suruhanjaya Sekuriti
Securities Commission

GUIDELINES ON ASSET VALUATION

Issued By:

Securities Commission

Effective: 1 May 2003

Updated: 30 September 2003

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Chapter 1

INTRODUCTION

- 1.01 The *Guidelines on Asset Valuation* has been formulated with the principal objective of setting out the requirements that must be complied with by valuers when carrying out valuations of property assets including plant, machinery and equipment, for the following purposes:
- (a) In conjunction with corporate proposals relating to issuance of securities and units (in the case of property trust schemes), undertaken by public companies requiring the approval of the Securities Commission (SC) pursuant to section 32 of the *Securities Commission Act 1993*; and
 - (b) For inclusion in prospectuses issued in relation to public offerings of securities and units where valuation certificates are required.
- 1.02 The guidelines are also intended to assist corporate advisers, directors of public companies, directors of management companies in property trust funds and their trustees in understanding the nature and extent of information required in the preparation of valuation reports.
- 1.03 The SC may, from time to time, issue guidance notes to promote clarity and provide guidance in relation to the requirements of the guidelines and these guidance notes should be complied with in the same manner as the guidelines. The SC may also vary, amend, modify, waive or repeal the guidelines or the guidance notes as the need arises.
- 1.04 The guidelines and the guidance notes should be adhered to by valuers, directors of companies and all other parties involved, either directly or indirectly, in the valuation. Compliance with the guidelines and the guidance notes will facilitate the efficacious

and expeditious consideration of proposals that involve the valuation of property assets.

- 1.05 Where there are special circumstances which render it inappropriate or impractical for full compliance with the guidelines, a clear statement in writing must be given in the report to this effect, together with the details of and reasons for the departure, which the valuer may be required to justify to the SC.
- 1.06 Valuers must also ensure compliance with the valuation standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia (Board) and other applicable valuation standards issued by recognised professional bodies.
- 1.07 With these guidelines and guidance notes, it is hoped that valuers will exercise professional responsibility and due diligence on which the SC places great importance.

Chapter 2

DEFINITIONS

2.01 In these guidelines, the following words shall construe to carry the following meanings, unless the context otherwise requires:

Board	means the Board established under the <i>Valuers, Appraisers and Estate Agents Act 1981</i> (as amended).
company	shall have the meaning given in section 2 of the <i>Securities Commission Act 1993</i> .
depleting assets	mean those which, when consumed, cannot be renewed in the existing location. Examples of such assets are mineral-bearing land and timber concession.
development properties	mean landed properties that are currently being developed/redeveloped or with development potential and include development rights.
development rights	mean those rights to develop pursuant to a joint venture agreement, privatisation agreement or some other forms of joint arrangement.
Issues Guidelines	means the <i>Policies and Guidelines on Issue/Offer of Securities</i> .
joint venture	includes any joint venture entity or an entity that arise pursuant to a privatisation agreement or any other form of joint arrangement.

market value	shall have the meaning given in Standard 1 of the Malaysian Valuation Standards issued by the Board.
property assets	include all rights, interests and benefits in land and/or buildings, plant, machinery and equipment and depleting assets.
prospectus	shall have the meaning given in section 35 of the <i>Securities Commission Act 1993</i> .
SC	means the Securities Commission established under the <i>Securities Commission Act 1993</i> .
specialised properties	shall have the meaning given in the Malaysian Valuation Standards issued by the Board.

Chapter 3

APPOINTMENT OF VALUER

Qualifications of Valuer

- 3.01 All submissions to the SC pertaining to valuation of property assets pursuant to these guidelines shall be prepared by an independent qualified valuer (the valuer) who meets the following criteria:
- (a) Registered with the Board as a registered valuer;
 - (b) Possesses a minimum of three years post-registration experience; and
 - (c) Has no record of disciplinary action taken against the valuer by the Board during the past three years.
- 3.02 The valuer is required to have sufficient knowledge of the particular market and the skills necessary to undertake the related valuation competently. Assistance from other professionals such as quantity surveyors, geologists, foresters, mining engineers, accountants and lawyers, shall be sought by the valuer on matters outside the valuer's area of expertise.

Independence of Valuer

- 3.03 An independent valuer is a valuer–
- (a) where neither he nor any of his partners or directors are directors or employees of the client company or have a significant interest therein;
 - (b) where the client company does not have a significant financial interest in the valuer's company; and

- (c) where he has no pecuniary or other interests that could reasonably be regarded as being capable of affecting his ability to give an unbiased opinion.

Declaration

- 3.04 The valuer is required to give a declaration that he complies with the requirements of the guidelines with respect to qualifications of valuer and of his independence. A specimen of such a declaration is set out in Schedule A.

Conflict of Interest

- 3.05 The valuer should not accept an engagement to conduct valuation for the company in cases where there may be an actual or potential conflict of interest unless, in exceptional circumstances, dispensation has been obtained from the SC.
- 3.06 Notwithstanding the above, the valuer shall, at all times, take all reasonable steps to ascertain whether a conflict of interest exists or is likely to exist in relation to his appointment to provide valuation services to a client company.
- 3.07 Full disclosure shall be made in the relevant valuation report or any related document where any of the following situations exists:
 - (a) Any past or present relationships with the client company or any of the interested parties or previous involvements with the subject property(ies); and
 - (b) Any possible nature of conflict of interest, including persons connected with the valuer who have any equity or financial relationship with the client company.

Valuation of Foreign Property Assets

- 3.08 The valuation of foreign property assets relating to corporate proposals undertaken by public companies shall be prepared by an independent qualified valuer registered in Malaysia. A joint valuer recognised professionally in the country where the property assets are located may be engaged, if necessary.

Professional Duty

- 3.09 Valuers shall at all times conduct their duty with high standards of competence, honesty, integrity and professionalism, and shall maintain the strictest impartiality and objectivity when providing independent advice.

Chapter 4

VALUATION

Bases of Valuation

- 4.01 The basis of valuation in the acquisition/disposal of property assets will generally be the market value. However, in the case of specialised properties, which are rarely sold on the open market except as part of a sale of the business in occupation, the basis of valuation will be the depreciated replacement cost, subject to the adequate potential profitability.
- 4.02 Where assumptions are used in the valuation, these shall be clearly stated. Such assumptions must be realistic, relevant and valid and are to be adequately substantiated by reference to physical, functional and market factors. Assumptions that planning permission, conversion approval and subdivided titles are available but not materialised at the time of valuation will not be acceptable except when they form part of the terms and conditions under the relevant sale and purchase agreement.

Methods of Valuation

- 4.03 The valuer shall use the appropriate method(s) of valuation showing adequate substantiation and adhere to the relevant valuation standards issued by the Board and other applicable valuation standards recognised by professional bodies. Where other methods are used, the valuer shall ensure that such methods are relevant and have gained the general acceptance of the valuation profession. When applying the appropriate methods of valuation, the valuer shall ensure the following additional details are provided:

(1) *The Comparative Method*

- (a) Description of the comparables which must include–
 - (i) type of property;
 - (ii) date of sale;
 - (iii) land and built-up area;
 - (iv) purchase price;
 - (v) breakdown of land and building values;
 - (vi) names of vendor and purchaser;
 - (vii) terms and conditions of sale (where available);
 - (viii) planning details; and
 - (ix) types of cultivation in the case of agricultural properties.

; and

- (b) The adjustments made on comparables used to arrive at the value where such comparables must be inspected to ensure all dissimilarities have been fully considered.

(2) *The Cost Method*

- (a) The actual construction or tender cost where available;
- (b) The building and depreciation rates adopted in the valuation; and

- (c) The adjustments made on comparables used to arrive at the value.

(3) *The Investment Method*

- (a) Details of all income receivable. Disclosure where the income or part of the income is directly related to non-real property items such as intangibles, furniture, fixtures and equipment;
- (b) A schedule showing details of existing tenancies such as names of tenants, terms, rentals and service charges. Disclosure where tenants are related to the landlord/vendor;
- (c) Actual outgoings for the past three years;
- (d) Analysis of comparable data on rentals, outgoings, voids and capitalisation rates and their comparability to the property being valued;
- (e) Disclosure of any major capital expenditure on repairs or maintenance likely to be incurred in the immediate future; and
- (f) In the case of agricultural properties:
 - (i) The estimated gross income from the cultivation should be established by reference to the long-term sustainable price and the yield profile by field and year of planting of the estate concerned; and
 - (ii) The production cost used must be supported with past records of such costs for the subject property itself or based on industry average.

(4) *The Residual Method*

- (a) The approved layout plan together with details of the approved development project, if available. In using this method, due care must be exercised to ensure reasonableness in the estimation of the gross development value, period and timing of the development. In the case where no approved layout plan is in place, adequate market or feasibility study undertaken by an independent valuer on the viability of the proposed development must be provided;
- (b) The adjustments made on comparables used to arrive at the gross development value;
- (c) Construction estimates by quantity surveyors where appropriate or required or where contracts are awarded, the actual tender sum; and
- (d) Market evidence to support the rates of absorption and capitalisation rates.

(5) *The Profits Method*

- (a) Audited accounts of the business for the past three years;
- (b) Detailed workings showing estimation of annual sales revenue, operating expenses/overheads, allowance for tenant's share and interest on working capital; and
- (c) Market evidence to support the capitalisation rate that reflects the risk of the business.

(6) Other Methods

- (a) Full explanation of the method used; and
- (b) All data used must be fully substantiated by reference to market evidence.

Valuation of Ongoing Property Developments

4.04 In considering proposals for the acquisition of a property development project or a company involved in property development, the valuation of the property development project or company shall be as follows:

- (a) In the case of an ongoing property development, a cash flow approach may be used in valuing a parcel of land in respect of a phase/scheme that has been launched and for which advertisement and sale permits have been obtained from the relevant authorities.

However, in such cases, due care and attention shall be given to the appropriate capitalisation of all costs, the proper recognition of sales and profits, the timing of receipts and payments and the determination of all future costs, liabilities and commitments. Due adjustments shall be made in the valuation in respect of amounts billed for sold units and total costs for completed works as certified by the relevant professional;

- (b) For the other phases that are to be immediately developed and sold, the residual technique or discounted cash flow approach may be used provided that the type of development anticipated is reasonable and justifiable; and

- (c) For the remaining area where the development is not in the immediate future, other alternative approaches shall be used.

Valuation of Development Rights/Property Interests in Joint Ventures

- 4.05 In considering proposals involving joint ventures, the valuation of the property interest shall take into consideration the following:
- (a) The contractual obligations of the parties involved in the development/joint venture agreement; and
 - (b) The risks and uncertainties associated or attached to such interests.

Disclosure Requirements

- 4.06 Valuers are required to fully disclose all relevant information which is relied upon in the course of carrying out any valuation of the property assets.
- (a) In all valuations, the following shall be explicitly stated and adequately explained, where relevant:
 - (i) Legal opinions that may affect values;
 - (ii) Reports prepared by industry experts;
 - (iii) Source and nature of information used in report;
 - (iv) All relevant assumptions; and
 - (v) Any other significant factors influencing the value and marketability of the property.

; and

- (b) In the case of valuing property interests in joint ventures, the following shall be disclosed, where relevant:
 - (i) Nature of interest and the rights in the joint venture which the applicant company has or is intending to acquire;
 - (ii) The equity and profit-sharing arrangements of the parties to the agreement;
 - (iii) Salient terms and obligations in the joint venture agreement; and
 - (iv) Legal opinions, where relevant.

Chapter 5

CONTENTS OF VALUATION REPORT

5.01 A valuation report shall contain, but not be limited to, the following to ensure the user is adequately and appropriately informed of all material facts pertaining to the property being valued:

(1) *Client and Instructions*

- (a) The report must be addressed to the applicant/listed company undertaking a corporate proposal; and
- (b) Details of the instructions including any special conditions and/or assumptions must be clearly stated in the report.

(2) *Purpose of Valuation*

- (a) The purpose of the valuation shall be clearly stated and unambiguous. Where the purpose is for submission to the SC in conjunction with a corporate proposal, to state the type of proposal (e.g. valuation or revaluation relating to the proposed acquisition, listing exercise, disposal etc.)

(3) *Material Date of Valuation*

- (a) This may be the same date as the date of the report, or an earlier date but not more than six months from the date of receipt of the submission.

(4) *Identification of the Property*

- (a) This shall be stated in a clear manner by reference to the lot number, address and the reference of the title.

(5) Inspection and Referencing

- (a) The date of inspection together with the name(s) of the person(s) involved and the extent of the inspection shall be stated;
- (b) Where inspection to any part of the property asset was not possible, it shall be clearly disclosed. The valuer shall make it clear if the valuation has been made without there being an opportunity to carry out an adequate inspection; and
- (c) For the purpose of referencing, *The Uniform Method of Measurement of Buildings* issued by the Institution of Surveyors, Malaysia shall be used.

(6) Interest to Be Valued

- (a) The legal interest in the property asset shall be properly ascertained and clearly stated. Where valuations involve buildings, only those with relevant approvals shall be considered; and
- (b) In the case of joint venture interests, the valuer is required to give a brief description of the equity and profit-sharing arrangements of the parties to the agreement as well as the salient terms and obligations in the joint venture agreement.

(7) Title Details

- (a) All relevant title details of the property to be valued shall be checked at the appropriate land offices. The date and place where the title search is conducted shall be stated in the report;

- (b) While the valuer may state the basic details related to title, tenure, restrictions, conditions, easements, rights of way etc., copies of the title shall be provided. Any legal interpretations of any matters in the title which may have a direct or indirect influence on the value of the property shall be provided by a member of the legal profession; and
- (c) Where title details of the property are not maintained, kept or are not available at the land offices, the source of such details shall be disclosed. Where no title has been issued yet, such as in the case of strata properties or where the interests involve licences, permits or leases, relevant certified documents ascertaining the respective legal interests must be provided and relevant details disclosed.

(8) *Description of Property*

- (a) A clear, adequately detailed and factual description of the property assets shall include, but not be limited to the following:
 - (i) Location and accessibility of the property. For identification of the property, a site and a location plan shall be provided;
 - (ii) Age, description, use, accommodation, construction details of buildings, amenities and services;
 - (iii) Dimensions and areas of land and buildings, together with the approved building plans and copies of the certificate of fitness. Any breaches or violation of the building by-laws and regulations should be fully disclosed and excluded from the valuation;

- (iv) The existence of any recent significant refurbishment or renovation;
- (v) State of repair and condition. If there are doubts as to the state of repair, a report prepared by a qualified building surveyor or engineer may be provided;
- (vi) For industrial property, details of factory buildings such as design, span, heights to eaves and ridges as well as the type of manufacturing activity;
- (vii) For properties generating rental income e.g. shopping complex, office building etc., details such as occupancy rate, tenancy schedule, types of income and operating costs. A copy each of the typical tenancy agreement shall also be provided;
- (viii) For hospitality/leisure properties e.g. hotel, theme park etc., details such as types and pricing of products offered, rating, take-up rate, profile of income, costs of development and operating expenses;
- (ix) For agricultural property, details of the cultivation such as type, clones, age or year of planting, past yields (based on field and year of planting) and production costs including an area statement of the existing land use;
- (x) For ongoing property development project, details pertaining to the sales status and construction progress of the ongoing phases together with a summary of the sales value and the relevant contracts awarded;

- (xi) For timber concession, details relating to infrastructure, area statement of the forest (logged-over and virgin, operable and inoperable), felling restrictions, merchantable timber stock by species mix, estimated recoverable volume, past yields (if applicable), operational costs, statutory obligations and other significant features such as distance to base camp/sawmill/port, EIA requirements, customary rights etc.;
- (xii) For quarry/extraction of minerals, details on type and products, volume of reserves, method of extraction together with previous and present extraction rates, list of plant, machinery and equipment used and their capacities;
- (xiii) For ease of reference, adequate visual presentation of the property (where there are buildings involved, both the external and internal parts of each building);
- (xiv) Problems relating to setback, encroachments, squatters and other detrimental factors, if any; and
- (xv) Site stability, especially buildings on ex-mining land, swampy sites or hill slopes. Where relevant, the valuer shall state whether a geotechnical survey and/or an environmental impact assessment are/is required and attach such reports if available.

(9) Experts' Reports

- (a) Independent experts' reports i.e. forest assessment reports, mining reports and other reports on specialised properties shall form part of the valuation report

submitted in conjunction with proposals that involve valuations of timber concession, quarry/extraction of minerals and certain specialised properties;

- (b) Other experts' reports are to be included, where necessary; and
- (c) In this regard, the valuer shall rely on the abovementioned experts' reports in carrying out valuations of such properties.

(10) Neighbourhood

- (a) A description of the surrounding development, availability of communications, amenities and utilities shall be provided.

(11) Planning Provisions

- (a) Planning proposals and existing permissions shall be dealt with in detail. Any conditions attached to relevant planning approvals which may affect value shall be given due consideration. Where reference is made to the existence of any approvals, copies of such approvals shall be attached.

(12) Assumptions

- (a) Where assumptions are used in the valuation, a valuation reflecting its existing state, condition and status shall also be provided.

(13) Acquisition Details

- (a) The following details of the registered transactions on the subject property within two years (or a longer period if the valuer considers this relevant) from the date of valuation shall be disclosed:

- (i) Date of acquisition;
- (ii) Cost of acquisition;
- (iii) Total cost expended on property after acquisition;
- (iv) Parties involved and their relationship (where available);
- (v) Salient terms and conditions in the sale and purchase agreement (where available); and
- (vi) Existing use at the time of sale (where available).

(14) Basis of Valuation

- (a) The definition of the basis of valuation shall be provided in full. The basis shall be appropriate for the purpose to which the valuation is made and on the nature of the property assets.

(15) Method of Valuation

- (a) The valuer shall use at least two methods of valuation and describe briefly the methods used. Where only one method is used, an explanation shall be given.

(16) Evidence of Values

- (a) Adequate sale data, comparable market evidence, analysis and reconciliation relevant to the method of valuation shall be provided to support the opinion;
- (b) All sale comparables shall be shown on a plan in relation to the subject property; and

- (c) The sources and nature of information relied upon in the valuation shall be provided.

(17) Property Market Condition/Industry Outlook

- (a) The valuer shall discuss in general the prevailing market condition. This shall include the supply and demand situations affecting the area and the property sector or industry concerned as well as future indicated trends which may affect the value of the property; and
- (b) In the presentation of a valuation of foreign properties, the report shall also provide some brief information on the economic, social and political background of the country where the property assets are located.

(18) Opinion of Value

- (a) The opinion of value in words, as well as figures, is required to be provided in the main body of the report; and
- (b) In the valuation of foreign property assets, the opinion of value shall also be reported in Malaysian ringgit. The exchange rate as at the date of valuation and its source shall be stated. The valuer shall also state whether allowance has been made in respect of existing or proposed local legislation relating to taxation on the realisation of the property.

(19) Certification and Authentication

- (a) The name(s), address(es), qualifications and registration numbers(s) of the valuer and the joint valuer, where applicable, and his/their organisation(s); and
- (b) The report shall be signed or jointly signed and dated by the valuer(s).

(20) Appendices

(a) The following shall be included as appendices where relevant:

- (i) Detailed workings and adjustments;
- (ii) Plans – location, site, layout, building, location of comparables in relation to the subject property;
- (iii) Maps;
- (iv) Photographs;
- (v) Documents such as title deeds, sale and purchase agreements, tenancy agreements, certificates of fitness, licences, permits, joint venture agreements, approval letters for conversion, planning permission, development order, land alienation, etc.;
- (vi) Experts' reports; and
- (vii) Declaration by valuer.

; and

(b) Where applicable, original copies of the above shall be attached. In cases where duplicated copies are attached, these are to be certified by relevant parties.

Chapter 6

VALUATION CERTIFICATE

Requirement for Valuation Certificate

- 6.01 Pursuant to the *Prospectus Guidelines* issued by the SC, the prospectus issued shall include a valuation certificate where valuations on property assets have been carried out.
- 6.02 The valuation certificate shall be signed and dated. It must contain clear, accurate and adequate information which is not misleading to enable investors and their investment advisers to make informed investment decision.
- 6.03 The valuation certificate may include a property schedule, where necessary.

Contents of Valuation Certificate

- 6.04 The certificate shall contain the following information:
- (a) Basic requirements
 - (i) Addressee;
 - (ii) Nature of instructions;
 - (iii) Purpose of valuation;
 - (iv) Basis of valuation;
 - (v) Statement to affirm reference and compliance to relevant and applicable valuation standards/guidelines;

- (vi) Market value/summary of market value as stated in the property schedule, where applicable;
- (vii) Name(s), qualification(s), registration number(s) and signature of valuer and joint valuer, where relevant; and
- (viii) Information on legal opinion, with regard to ownership, joint venture interest, title restrictions, encumbrances etc., where relevant.

6.05 Property detail requirements

- (a) Identification of property
 - (i) Details of title/property interest;
 - (ii) Address (where applicable);
 - (iii) Location of property;
 - (iv) Details on tenure;
 - (v) Category of land use; and
 - (vi) Registered/beneficial owner;
- (b) General description of property
 - (i) Brief description of land and/or buildings;
 - (ii) Land and/or building floor areas;
 - (iii) Brief description of its existing use;
 - (iv) Relevant planning details;

- (v) Information specific to the type of property such as timber concessions, hotels, golf courses, etc.;
- (vi) Material contraventions of statutory requirements which may include breaches of land use conditions, violation of building by-laws for buildings and/or extensions built etc., where relevant; and
- (vii) Relevant details of the following documents which have been duly verified, where necessary:
 - Licences/permits;
 - Land/building leases;
 - Letters from relevant authorities;
 - Planning/layout approval including any material or onerous conditions attached to such consents;
 - Agreements such as joint venture, sale and purchase etc.;
 - Where the property is being tenanted, brief particulars of tenancies together with net annual rent receivable; and
 - Where the property is being developed, details on the stage of completion, prelet/sale performance and estimated date of completion.

; and

(c) Market value

(i) Date of valuation;

- This must be within a reasonable time of the issue of the prospectus and in compliance with paragraph 16.06 of Chapter 16 of the Prospectus Guidelines.

(ii) Method of valuation;

(iii) Sources of information relied upon in the valuation which may include experts' reports, contract documents or any other documents;

(iv) Any assumptions used (must be stated in bold and where necessary accompanied by an explanation);

(v) Any other matters which may materially affect the values and the marketability of the property;

(vi) Where the property is being developed, the market value in the existing condition and where applicable, the market value upon completion; and

(vii) Where the valuation involves foreign property assets, the market value shall also be reported in Malaysian ringgit and the exchange rate at the date of valuation.

6.06 The above details may be presented in the form of a property schedule as outlined below:

Property Identification	General Description of Property	Market Value

Chapter 7

COMPLIANCE AND ENFORCEMENT

Compliance with and Enforcement of the Guidelines

7.01 It shall be the duty of the valuers to ensure that all the requirements set out in these guidelines and guidance notes are fully complied with. The valuer shall also ensure compliance with other relevant guidelines/guidance notes issued by the SC and applicable valuation standards. In instances of non-compliance with these guidelines, the SC may take appropriate action against the valuer concerned after seeking an explanation for non-compliance and deviation.

Types of Non-compliance

7.02 The types of non-compliance can be broadly categorised as follows:

- (a) Failure to adhere to the requirements of the guidelines;
- (b) Low quality of valuation reports such as poor report production, lack of clarity and errors in calculation measurement;
- (c) Failure to adopt appropriate comparables, lack of substantiation and inconsistent/inappropriate adjustments;
- (d) Failure to verify, analyse and follow through in the analysis of data in arriving at value conclusion;
- (e) Failure to disclose the actual market conditions and activities;
- (f) Non-compliance with other applicable guidelines/standards;
- (g) Disclosure of false, misleading or deceptive information;

- (h) Omission of factual and material information such as contravention of statutory requirements, legal and financial obligations, and detrimental factors; and
- (i) Failure to discharge due diligence responsibilities expected of a valuer.

Penalties

7.03 The SC reserves the right to impose penalty(ies) on the valuer who fails to comply with any of the requirements in these guidelines as is permitted under section 158 of the *Securities Commission Act 1993*. The types of penalties that the SC may impose are dependent on the severity of the transgressions.

Chapter 8

REVIEW OF VALUATION

Request for Further Information/Documents

8.01 In the course of conducting a valuation review, the SC may, at its full discretion, request for any further information and documents other than those specified in the guidelines. All documents forwarded to the SC by a company shall become and remain the property of the SC.

Second Opinion

8.02 The SC reserves the right to seek a second opinion on the valuation of properties or any other experts' reports. The second-opinion valuer shall be appointed by the SC. Any fees and costs incurred shall be borne by the company.

Limitation of Approved Valuation

8.03 Where the SC approves a corporate proposal that involves valuation of properties, the valuation so approved or accepted by the SC shall only be utilised for the purpose as set out in the submission or prospectus and/or circular to shareholders and shall not be construed as an endorsement of the SC on the value of the properties for any other purposes.

Chapter 9

SUBMISSION OF REPORT

Procedures in Submitting Valuation Report

- 9.01 The independent qualified valuer shall be appointed by the applicant company undertaking the corporate proposal.
- 9.02 For proposals under paragraph 5.06 of the Issues Guidelines, the relevant valuation reports shall be submitted to the SC by the adviser prior to the submission of the corporate proposal, for purposes of expediency. The valuation reports shall be submitted not more than one month but at least two weeks before the submission of the corporate proposal.
- 9.03 Two copies of the valuation reports shall be submitted to the SC.
- 9.04 A report shall be prepared separately for each property except where–
- (a) properties are adjoining and of similar land use; or
 - (b) properties form part of a development.

Valuation Report Checklist

- 9.05 A valuation report checklist is provided to ensure all valuation reports submitted to the SC comply with the basic requirements of the guidelines. This checklist shall be completed by the valuer and attached to the valuation report prepared for each property. The adviser submitting the related corporate proposal for the consideration of the SC has a duty to ensure all the relevant requirements are fully met. A specimen of the checklist is set out in Schedule B.

SCHEDULE A

DECLARATION BY VALUER

I,.....(1).....from.....(2).....(the Firm)
instructed by.....(3).....(the Company)
to carry out a valuation on.....(4).....(the Subject
Property[ies]) do hereby declare that–

- (i) I am neither a director nor an employee of the Company and do not have any significant financial interest, direct or indirect, in the Company;
- (ii) the partners or directors of the Firm are neither the directors nor employees of the Company and they do not have any interest, direct or indirect, in the Company;
- (iii) the Company does not have any interest, direct or indirect, in the Firm; and
- (iv) I have complied with the requirements of the guidelines with respect to qualification of valuer.

Declared by

.....

Name:

Designation:

Registration number:

Date:

Notes

- (1) Name of private valuer.
- (2) Name of Firm.
- (3) Name of Company.
- (4) Identification of the property(ies).

SCHEDULE B

VALUATION REPORT CHECKLIST

This checklist is provided to ensure the valuation reports submitted to the SC contain the basic requirements as set out in the *Guidelines on Asset Valuation*. The adviser/valuer is required to state when any of the required information is not applicable and the reasons if not available.

Part I to be filled by adviser and Parts II to III to be filled by the valuer.

Part I	
Applicant company (*)	:
Type of proposal	:
Tentative date of submission of corporate proposal	:
Date of valuation is less than six months from the above date	: Yes/No
Contact person (HQ)	:
Address	:
Telephone	:
Contact person (site)	:
Telephone	:
Adviser	:
Contact person	:
Telephone	:

Part II	
Valuation firm	:
Valuer	:
Telephone	:
Details of property	
• Type of property	:
• Address	:
• Lot no.	:
• State	:
• Market value	:
• Date of valuation	:

* The name of the acquirer company in the case of an acquisition exercise.

Part III				
No.	Disclosure Requirements	Under Item No.	On Page	Comments
General				
1	Client and instructions: i. Report addressed to the applicant company ii. Details of instructions stated			
2	Purpose of valuation: i. Report prepared specifically for submission to the SC ii. Type of corporate proposal			
3	Interest to be valued: i. Legal interest to be valued			
4	Date of valuation and inspection disclosed			
Property Description				
5	Title particulars: i. Title search conducted ii. Basic details of title iii. Where titles have yet to be issued or interests to be valued involve licences/permits/leases/joint ventures, the following are provided: <ul style="list-style-type: none"> • Relevant certified document(s) ascertaining the legal interest • Disclosure of relevant details of the above document(s) 			
6	The following descriptions provided: i. Location ii. Neighbourhood iii. Property market condition/ industry outlook iv. Site/building v. Certificate of fitness attached			

Property Description				
No.	Disclosure Requirements	Under Item No.	On Page	Comments
	<ul style="list-style-type: none"> vi. Major extension vii. Approval of extension viii. Disclosure of any breach/ violation of building by-laws and regulations ix. Planning provision/restriction and details of proposed development on the property x. Information specific to the type of property such as agriculture, commercial, hotel, golf course, timber concession, quarry, plant, machinery and equipment etc. 			
7	<p>For an ongoing project, details pertaining to the following:</p> <ul style="list-style-type: none"> i. Summary of sales value which includes amounts billed ii. Details on sold and unsold units iii. Selling prices iv. Relevant contracts awarded v. Amounts claimed 			
8	<p>For joint venture property development, details pertaining to the following:</p> <ul style="list-style-type: none"> i. Equity and profit-sharing arrangements of the parties ii. Salient terms and obligations in the joint venture 			
9	<p>For plant, machinery and equipment (PME), details pertaining to the following:</p> <ul style="list-style-type: none"> i. Inventory of PME certified by company ii. Factual descriptions of PME are in accordance with Guidance Note 1 issued together with these guidelines 			

Valuation				
No.	Disclosure Requirements	Under Item No.	On Page	Comments
10	Basis of valuation			
11	Two of the following methods adopted: i. Comparative method ii. Cost method iii. Investment method iv. Residual method v. Profits method vi. Other methods			
12	Detailed workings of the above valuations included			
13	Disclosure of past transaction(s) involving the subject property for the past two years (or a longer period if valuer considers this relevant)			
Certification and Authentication				
14	Report signed by registered valuer with name, qualification, registration number and date of signing stated			
Attachments				
15	All letters/approvals from relevant authorities in support of valuation			
16	Certified copy of titles/licences/permits/leases			
17	Copies of relevant documents and original experts' reports			
18	All duplicated copies are certified			
19	Approved building plans (where applicable)			

Attachments				
No.	Disclosure Requirements	Under Item No.	On Page	Comments
20	Site and location plans (showing comparables in relation to the subject property)			
21	Original photographs			
22	Declaration by valuer			

Guidance Note 1

VALUATION OF PLANT, MACHINERY AND EQUIPMENT

CONTENTS

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4.0 BASIS OF VALUATION	GN1-2
5.0 METHODS OF VALUATION	GN1-3
6.0 CONTENTS OF VALUATION REPORT	GN1-5

1.0 CONTEXT

- 1.01 This guidance note supplements the *Guidelines on Asset Valuation* and the *Policies and Guidelines on Issue/Offer of Securities*.

2.0 INTRODUCTION

- 2.01 This guidance note provides guidance to valuers on the preparation of valuation of plant, machinery and equipment (PME) for submission to the Securities Commission (SC) in conjunction with corporate proposals undertaken by public companies.
- 2.02 This guidance note is intended to assist all parties involved, either directly or indirectly, to understand the basis upon which valuations of PME are undertaken. It also sets out the nature and extent of information that must be included in the valuation reports of PME submitted to the SC for approval.
- 2.03 Valuers are required to ensure compliance with the relevant and applicable standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia, the International Valuation Standards Committee and other recognised professional bodies.
- 2.04 This guidance note is to be read in the context of the broad principles set out in the main chapters of the *Guidelines on Asset Valuation* in which this forms part.

3.0 DEFINITIONS OF PLANT, MACHINERY AND EQUIPMENT

- 3.01 The acceptable definitions of PME shall be in accordance with the *Manual of Valuation Standards* issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia and the *International Valuation Standards* issued by the International Valuation Standard

Committee which include tangible assets other than realty intended to generate income for their owner.

- 3.02 Generally, building services such as electrical installation, gas pipe, water supply system, air conditioning and ventilation, fire and security, drainage, lift and gantries, structures and fixtures and any other items deemed as building services are normally valued with the property interest. The valuers must ensure that no double counting is made in relation to the building services when valuing the PME.

4.0 BASIS OF VALUATION

- 4.01 The basis of valuation is generally market value. Like other tangible assets, when there is no evidence of market value due to the specialised nature of the PME, the depreciated replacement cost (DRC) basis may be used.

Market Value

- 4.02 In determining the market value of PME, the valuer must clearly qualify the circumstances in which the basis of valuation is made, for instance–
- (a) as a whole for use in its working place;
 - (b) as a whole for removal from the premises at the expense of the purchaser; or
 - (c) as individual item(s)/piecemeal for removal from the premises at the expense of the purchaser.
- 4.03 In cases where removal of the PME is envisaged, the following shall be considered:

- (a) Whether there is time limit on the removal, for example due to an expiry of a lease on the land/buildings; and
- (b) Whether there is any obligation to reinstate the building after the removal, and if so, whether this will be at the expense of the owner or purchaser.

Depreciated Replacement Cost (DRC)

- 4.04 In adopting DRC as a basis of PME valuation, consideration shall be given to the potential economic or operational life curtailed by the length of lease remaining when determining depreciation to be applied to PME situated on leasehold property.

5.0 METHODS OF VALUATION

- 5.01 The valuer shall use the appropriate methods of valuation with adequate substantiation, and adhere to the relevant valuation standards issued by the Board and other applicable valuation standards recognised by professional bodies. When applying the appropriate methods of valuation, the valuer shall ensure the following details are provided:

(1) *The Comparative Method*

- (a) The description of comparable/evidence used to arrive at the market value shall contain, but not be limited to the following:
 - (i) Type of PME;
 - (ii) Make/name of manufacturer;
 - (iii) Model;

- (iv) Age;
- (v) Specifications;
- (vi) Date of sale;
- (vii) Purchase/asking price;
- (viii) Details of modifications, alterations and additions (if any); and
- (ix) Source of information.

; and

- (b) The adjustments made on comparable/evidence used to arrive at the market value.

(2) *The Cost Method/Depreciated Replacement Cost Approach*

- (a) The gross current replacement cost of each PME shall include–
 - (i) cost of replacing the existing PME with the same or substantially similar new asset (modern equivalent); and
 - (ii) cost of making the PME productive (make-ready cost), where applicable;
- (b) The depreciation rate and the basis used in arriving at the rates;
- (c) The estimated economic life of the PME;
- (d) Substantiation of all cost; and

(e) Source of information.

(3) Other Methods

(a) When other methods/approaches are used, these must be fully explained and the data used in the valuation must be substantiated by reference to market evidence.

6.0 CONTENTS OF VALUATION REPORT

6.01 The valuation report conducted on PME, shall contain, but not be limited to the following:

(1) Client and Instructions

(a) The report must be addressed to the applicant/listed company and state the nature of the instructions.

(2) Purpose of Valuation

(a) The purpose of the valuation must be for submission to the SC in conjunction with a corporate proposal of which the type of proposal must be stated (e.g. valuation or revaluation relating to the proposed acquisition, listing exercise, disposal etc.).

(3) Material Date of Valuation

(a) This may be the same date as the date of the report, or an earlier date but no more than six months from the date of receipt of the submission.

(4) Interest to Be Valued

(a) The interest/ownership of the PME shall be ascertained and clearly stated in the report;

- (b) An inventory, which shall include all the relevant details of the PME, as certified by the client must be provided; and
- (c) Where PME is/are on lease, the valuer shall exclude such item(s).

(5) *Inspection and Referencing*

- (a) The date of inspection together with name(s) of the person(s) involved and the extent of the inspection shall be stated; and
- (b) Where inspection to any part of PME was not possible, it shall be clearly disclosed.

(6) *Location of Plant, Machinery and Equipment*

- (a) A general description of the premises where the PME is located shall include, but not be limited to the following:
 - (i) Address/locality;
 - (ii) Lot number;
 - (iii) Mukim;
 - (iv) District; and
 - (v) Name of building where the asset is located.

; and

- (b) Where the PME being valued is housed in multiple buildings, a site layout plan showing and identifying all the buildings shall be included.

(7) Description of Plant, Machinery and Equipment

- (a) A general description of the operation of the business concerned together with the production processes and the capacity of the PME;
- (b) A brief description of the PME by processes/functions notwithstanding that the detailed description will be fully covered in the valuation section;
- (c) The process flow charts for better understanding of the functions of the PME; and
- (d) Adequate visual presentation of PME.

(8) Acquisition Details

- (a) The valuer shall disclose the following details on PME which have been disposed/acquired/leased within the past two years from the date of valuation or a longer period if the valuer considers this relevant:
 - (i) Date of acquisition/lease;
 - (ii) Purchase price/rental; and
 - (iii) Make-ready cost (where applicable).

(9) Basis of Valuation

- (a) The definition of the basis of valuation must be provided in full together with the circumstances under which the market value is being reported. The basis must be appropriate for the purpose for which the valuation is prepared.

(10) Method of Valuation

- (a) The valuer shall state clearly the method of valuation used in valuing the PME. Where different methods are used in the valuation of different machines, the application of such methods shall be disclosed.

(11) An Expert's Report

- (a) Where necessary, the valuer shall seek the advice of an expert in the relevant fields such as engineering and information technology.

(12) Valuation

- (a) A clear, adequately detailed and factual description of the PME must be given. This shall include, but not be limited to the following, if applicable and where possible:
 - (i) Name of the machine;
 - (ii) Asset identification/registration number;
 - (iii) Plant and machinery department registration number;
 - (iv) Model number;
 - (v) Serial number;
 - (vi) Name of maker/manufacturer/supplier;
 - (vii) Country of origin;
 - (viii) Age/year of make;
 - (ix) Size or capacity (measured or given);

- (x) Specifications and/or dimensions (whichever is applicable);
- (xi) Special tools and accessories;
- (xii) Foundation and service connections; and
- (xiii) State of repair and condition.

; and

- (b) Working details in arriving at the market value of the PME shall be included in the valuation report. Such details shall include, but not be limited to the following:
 - (i) Adjustments made on comparables;
 - (ii) Basis and rate of depreciation; and
 - (iii) Economic life.

(13) Evidence of Value

- (a) Comparable market evidence, analysis and reconciliation relevant to the method of valuation shall be provided to support the valuation; and
- (b) The sources and nature of information relied upon in the valuation shall also be provided.

(14) Industry/Market Outlook

- (a) The valuer shall discuss in general the prevailing industry outlook and the technological changes that have bearing on the market value of the PME; and

- (b) Relevant factors affecting marketability of the PME, including general factors which may currently or in the foreseeable future, have an adverse impact on the market value shall also be highlighted in the report.

(15) *Opinion of Value*

- (a) The opinion of value in words, as well as figures, shall be provided in the main body of the report. In the valuation of PME located in a foreign country, the opinion of value shall also be reported in Malaysian ringgit. The exchange rate as at the date of valuation and its source shall be stated; and
- (b) The valuer shall also state whether allowance has been made in respect of existing or proposed local legislation relating to taxation on the realisation of such asset.

(16) *Certification and Authentication*

- (a) The name(s), address(es), qualification(s) and registration number(s) of the valuer and the joint valuer, where applicable, and his/their organisation(s); and
- (b) The report shall be signed or jointly signed and dated by the valuer(s).

(17) *Appendices*

- (a) The following shall be included as appendices:
 - (i) Inventory list (certified by the company);
 - (ii) Workings and adjustments;
 - (iii) Map/plans – location, site layout, process flow charts;

- (iv) Photographs of PME;
- (v) Relevant documents;
- (vi) Declaration by valuers; and
- (vii) An expert's report.

; and

- (b) Where applicable, original copies of the above shall be attached. In cases where duplicated copies are attached, these are to be certified by the relevant parties.

Guidance Note 2
FOREST ASSESSMENT REPORT

C O N T E N T S

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1.0 CONTEXT

- 1.01 This guidance note supplements the *Guidelines on Asset Valuation* and the *Policies and Guidelines on Issue/Offer of Securities* issued by the Securities Commission (SC).

2.0 INTRODUCTION

- 2.01 This guidance note sets out the requirements which must be adhered to in the preparation of a Forest Assessment Report (FAR).
- 2.02 The FAR must be prepared by an independent qualified forester in the case of a valuation of a timber concession or forest plantation in conjunction with a corporate proposal submitted to the SC. The SC may also request for the FAR in any other corporate proposals involving such property assets.
- 2.03 The FAR shall be submitted to the SC in two copies and dated not more than one year from the date of receipt of the related submission by the SC.

3.0 APPOINTMENT OF FORESTER

Qualifications of Forester

- 3.01 FAR for submission to the SC shall be prepared by a qualified forester (the forester) who meets the following criteria:
- (a) Registered with the Institute of Foresters Malaysia (IRIM) as a Fellow or an Ordinary Member;
 - (b) Possesses a minimum of five years experience in forestry;

- (c) Has the experience in carrying out a forest inventory; and
- (d) Has no record of disciplinary action taken against the forester by IRIM during the past three years.

Independence of Forester

3.02 An independent forester is a forester–

- (a) where neither he nor any of his partners or directors are directors or employees of the client company or have a significant financial interest therein;
- (b) where the client company does not have a significant financial interest in the forester's company; and
- (c) where he has no pecuniary or other interest that could reasonably be regarded as being capable of affecting his ability to give an unbiased opinion.

Declaration

3.03 The forester is required to give a declaration that he complies with the requirements of the guidelines with respect to the qualifications of forester and of his independence. A specimen of such a declaration is set out in Schedule A.

Conflict of Interest

3.04 The forester shall not accept an engagement to conduct forest assessment for the company in cases where there may be an actual or potential conflict of interest unless, in exceptional circumstances, dispensation has been obtained from the SC.

- 3.05 Notwithstanding the above, the forester shall, at all times, take all reasonable steps to ascertain whether a conflict of interest exists or is likely to exist in relation to his appointment to provide forest assessment services to a client company.
- 3.06 Full disclosure shall be made in the relevant FAR or any related document where any of the following situations exists:
- (a) Any past or present relationships with the client company or any of the interested parties or previous involvement with the subject property(ies); and
 - (b) Any possible nature of conflict of interest, including persons connected with the forester who have any equity or financial relationship with the client company.

Forest Assessment Report for Foreign Property Asset

- 3.07 Where the property asset is located overseas, the FAR shall be prepared by a qualified forester registered in Malaysia. A joint forester recognised internationally or professionally in the country where the forest is located may be engaged, if necessary.

4.0 OBJECTIVES

- 4.01 The main objectives of the FAR are–
- (a) to provide the background information on the subject property, which among others will include the location, accessibility and infrastructure, physical attributes, forest types and management plan;
 - (b) in the case of natural forests, to assess the operable/inoperable and virgin/logged-over areas;

- (c) in the case of plantation forests, to describe the plantation forest in terms of areas planted/to be planted; feasibility of the plantation forest project, silviculture history etc.; and
 - (d) to assess the standing and recoverable volume of merchantable timber by species mix and by log quality grades.
- 4.02 The above information is among the factors to be taken into consideration in the determination of the market value.

5.0 CONTENTS OF THE FOREST ASSESSMENT REPORT

5.01 The FAR shall contain, but not be limited to the following:

(1) *Client and Instructions*

- (a) The FAR must state the client and nature of the instructions.

(2) *Purpose*

- (a) The purpose of the FAR must be for submission to the SC.

(3) *Date of Assessment*

- (a) This date will be the date of the FAR.

(4) *Location*

- (a) To provide a description of the location of the subject property; and
- (b) To provide a cadastral reference and to indicate its position on a location map.

(5) Description of the Forest

(a) The FAR shall provide the following information:

(i) Forest types, e.g. dipterocarp, non-dipterocarp, plantation, mangrove, peat swamp forests, etc.;

(ii) Topography;

(iii) Forest category

To indicate the different categories of the forest and the areas covered by each category, e.g. forest reserve, protected forest, state land, native customary rights land, alienated land, etc.;

(iv) Area statement

To state in terms of hectarage and percentage and to indicate on a map the areas under virgin forest, logged-over forest and planted forest. A further breakdown of these areas into operable and inoperable areas in view that there may be areas that are inoperable due to difficult terrain, shifting cultivation, areas designated as conservation areas or other protected areas;

(v) Accessibility and infrastructure

To describe the access to the forest area and the existing infrastructure, including logging roads. Where infrastructure is not in place, to disclose the company's proposed infrastructure works;

(vi) Other significant features

To highlight issues such as customary rights, population centers and environmentally unique features;

(vii) In the case of plantation forest, the following information shall also be included:

- The types of species planted, their ages and areas planted;
- Silviculture history;
- Harvesting/rotation age; and
- The feasibility of the plantation forest in the light of the site and topography, soil conditions, drainage and type of tree species planted/to be planted.

; and

(viii) To provide further information on the property using satellite imagery or aerial photographs. The image shall be of 5m resolution or higher resolution with the boundaries of the subject property and the different forest areas clearly delineated, e.g. virgin, logged-over, operable, inoperable, etc., of which further breakdown of these areas into areas of different densities is required.

(6) *Inventory of Timber Stock*

- (a) To state the volume of merchantable timber by species mix and by log quality grades;

- (b) The tree size to be inventoried must conform to the minimum cutting limit of the relevant authority and as defined in the timber licence agreement/document unless otherwise superseded by other official or legal documents;
- (c) In the case of plantation forest, the forester must disclose any harvesting plans that have been approved or any limitations in harvesting by the authorities;
- (d) To explain the methodology used in the assessment of the timber volume:
 - (i) Choice of sampling designs

To explain the method of sampling and to plot the coordinates of the samples on the satellite imagery or aerial photographs;
 - (ii) Determination of sample size

An appropriate percentage sampling intensity to achieve a statistical reliability of at least 90% confidence and $\pm 20\%$ sampling error on the estimates of standing volume of the forest;
 - (iii) Field procedures and work map

To explain the field procedures and to indicate the layout of the samples on a plan with an appropriate scale of not less than 1:50,000. Where the procedure does not establish the samples, such as in plotless sampling designs or the measurement of crown size on photographs (or videographs) taken by aerial reconnaissance, an explanation of the procedures must be given; and

- (iv) Ground survey

To state the dates and the duration of the ground survey, and to explain the forester's involvement in the survey.

; and

- (e) To explain the analysis of data:

- (i) Data processing method;

- (ii) Volume statement – estimates of total standing volume and total recoverable volume, and to support these with the findings from the satellite imagery or aerial photographs; and

- (iii) Statistical analysis – reliability results.

(7) *Results and Interpretation of the Forest Inventory*

- (a) The findings must be tabled and the final conclusion clearly stated.

(8) *Certification and Authentication*

- (a) The name(s), address(es) and qualification(s) and registration number of the forester and the joint forester, where applicable and his/their organisation(s); and
- (b) The FAR shall be signed or jointly signed and dated by the forester(s).

(9) *Appendices*

- (a) The following must be included as appendices:
 - (i) Photographs of the forest;

- (ii) Satellite imagery or aerial photographs (in both soft and hard copies);
- (iii) Maps:
 - Location map; and
 - A work map of 1:50,000 scale that indicates the boundaries of the subject property, the different forest areas, the flight path taken and the location of the samples surveyed or inventoried;
- (iv) Summary of survey data;
- (v) Forest management plan/engineering plans; and
- (vi) Declaration by the forester.

6.0 PENALTIES

- 6.01 The SC reserves the right to impose penalty(ies) on the forester who fails to comply with any of the requirements in this guidance note as is permitted under section 158 of the *Securities Commission Act 1993*. The types of penalties that the SC may impose are dependent on the severity of the transgressions.

SCHEDULE A

DECLARATION BY FORESTER

I,.....(1).....from.....(2).....(the Firm) instructed by.....(3).....(the Company) to carry out a forest assessment report on.....(4).....(the Subject Property[ies]) do hereby declare that–

- (i) I am neither a director nor an employee of the Company and do not have any significant financial interest, direct or indirect, in the Company;
- (ii) the partners or directors of the Firm are neither the directors nor employees of the Company and they do not have any interest, direct or indirect, in the Company;
- (iii) the Company does not have any interest, direct or indirect, in the Firm; and
- (iv) I have complied with the requirements of the guidelines with respect to the qualification of a forester.

Declared by

.....

Name:

Designation:

Registration number:

Date:

Notes

- (1) Name of forester.
- (2) Name of Firm.
- (3) Name of Company.
- (4) Identification of the property assets.

