

# ASSET VALUATION GUIDELINES

SC-GL/AV-2009 (R1-2017)

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## ASSET VALUATION GUIDELINES

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## CHAPTER 1

### INTRODUCTION

#### **Purpose of guidelines**

- 1.01 The Asset Valuation Guidelines issued under section 377 of the *Capital Markets and Services Act 2007* (CMSA) are to be complied with by valuers and other experts when carrying out valuations of property assets including plant, machinery and equipment for the following purposes:
- (a) In conjunction with corporate proposals submitted under section 212 of the CMSA by corporations relating to issuance of securities; and
  - (b) For inclusion in prospectuses and circulars to shareholders issued on public offerings of securities where valuation certificates are required.
- 1.02 The guidelines are also intended to assist advisers, directors of public corporations, directors of management corporations in real estate investment trusts and their trustees in understanding the nature and extent of information required and to be provided to the valuers in the preparation of valuation reports and certificates.
- 1.03 These guidelines replace and supersede the Guidelines on Asset Valuation issued on 1 May 2003 and all guidance notes issued following those guidelines.

#### **Practice notes and amendments to guidelines**

- 1.04 The SC may, from time to time, issue practice notes to further clarify the requirements of these guidelines. The practice notes must be observed in the same manner as the guidelines.
- 1.05 These guidelines and the practice notes may be reviewed as and when necessary.

## **Compliance with and enforcement of guidelines**

- 1.06 The SC may take action against persons who disclose false or misleading information or fail to comply with or observe any of the provisions in these guidelines, as permitted under section 354 and other relevant provisions of the CMSA.

## **Compliance with other guidelines and valuation standards**

- 1.07 Valuers must also ensure compliance with the *Guidelines on Due Diligence Conduct for Corporate Proposals* and other relevant guidelines issued by the SC, valuation standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia (Board) and other valuation standards issued by recognised professional bodies, where applicable.

## **Review of valuation**

- 1.08 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 become and remain the property of the SC.
- 1.09 The SC may return valuation reports which are deemed unsatisfactory or do not comply with these guidelines.

## **Second opinion**

- 1.10 The SC may require a second opinion on the valuation of property assets or any other expert's report. The second opinion valuer/expert will be appointed by the SC. Any fees and costs incurred must be borne by the corporation.

## **Limitation of approved valuation**

- 1.11 Where the SC approves a corporate proposal that involves valuation of property assets, the valuation utilised for the purpose set out in the submission or prospectus or circular to shareholders must not be construed as an endorsement by the SC on the values of the property assets.

## Chapter 2

### DEFINITIONS AND INTERPRETATION

Unless otherwise defined, all words used in these Guidelines shall have the same meaning as defined in the CMSA. In these Guidelines, unless the context otherwise requires:

Board	means the Board established under the <i>Valuers, Appraisers and Estate Agents Act 1981</i> (as amended);
Bursa Securities	means Bursa Malaysia Securities Bhd;
CMSA	means the <i>Capital Markets and Services Act 2007</i> ;
corporate proposal	means any proposal submitted to the SC and includes any offering document submitted, deposited or registered with the SC under part VI of the CMSA;
firm	means a body corporation, a partnership or sole proprietorship;
joint venture interests	means interests arising from joint venture agreement, privatisation agreement or some other forms of joint agreement in development property;
lease	means an agreement whereby the landlord/lessor conveys to the tenant/lessee the right to use an asset for an agreed period of time in return for a payment or series of payments;
market value	has the meaning assigned to it in Standard 1 of the <i>Malaysian Valuation Standards</i> issued by the Board;
MOG assets	has the meaning assigned to it in the <i>Equity Guidelines</i> ;
MOG resources	has the meaning assigned to it in the <i>Prospectus Guidelines</i> ;

plant, machinery and equipment	has the meaning assigned to it in the <i>Malaysian Valuation Standards</i> issued by the Board;
principal adviser	has the meaning assigned to it in the <i>Principal Adviser Guidelines</i> ;
property assets	means all rights, interests and benefits related to the ownership of real estate, plant, machinery and equipment;
real estate	means land and all things that are a natural part of the land as well as all things attached to the land both below and above the ground and includes rights, interests and benefits related to the ownership of the real estate, but excludes MOG assets and MOG resources;
SC	means the Securities Commission Malaysia;
specialised properties	have the meaning assigned to it in the <i>Malaysian Valuation Standards</i> issued by the Board.

## **CHAPTER 3**

### **APPOINTMENT OF VALUER**

#### **Right of appointment**

- 3.01 The right to appoint a valuer lies with the directors of the applicant/issuer with the concurrence of the principal adviser on the terms of reference of the appointment.
- 3.02 The principal adviser has a right of refusal over the appointment of the valuer if the terms of reference are not agreed upon or the valuer does not have the requisite experience to meet their deliverables.

#### **Eligibility requirements for firm**

- 3.03 The valuation of property assets must be prepared by an independent valuer who meets the following criteria:
- (a) Registered with relevant authorities or members of recognised professional bodies, whichever is applicable;
  - (b) Possesses a minimum of five years' post registration experience;
  - (c) Possesses the competence and sufficient knowledge of the particular market to undertake the related valuation. Where the valuer lacks the requisite knowledge and experience in undertaking such valuation, he must take all steps necessary to complete the report professionally including, but not limited to obtaining outside assistance from a competent and professional person who have the necessary knowledge and expertise; and
  - (d) Is not denied or disqualified from membership of the recognised professional organisation or subject to any sanction, disciplinary proceedings or investigation which might lead to disciplinary action by any relevant regulatory authority or recognised professional organisation.



- 3.04 The valuer must also practice in or be employed by the firm that–
- (a) is not subject to any sanction, disciplinary action or investigation which might lead to disciplinary action by any relevant regulatory authorities or professional bodies; and
  - (b) has sufficient internal controls and procedures to ensure that the requirements of these Guidelines are complied with and valuations conducted have gone through a peer review process.
- 3.05 The firm is considered to have sufficient internal controls and procedures when–
- (a) the firm conducts the necessary due diligence on all valuation reports prepared for submission to the SC;
  - (b) the firm has an established peer review process; and
  - (c) the head office has oversight over all its branches.

### **General and continuing obligations**

- 3.06 The above competency requirements are minimum requirements. All valuation firms are expected to have sufficient personnel with the relevant competencies at all times to enable valuations to be carried out in a diligent and professional manner. The personnel are expected to be given continuous training in areas related to property asset valuation.

### **Independence of valuer**

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

## **Conflict of interest**

- 3.08 The valuer must not accept any engagement to conduct valuation for the corporation in cases where there may be an actual or potential conflict of interest.

## **Professional duty**

- 3.09 Valuers must at all times conduct their duty with high standard of professionalism and due diligence. They must maintain the strictest impartiality and objectivity when providing independent advice.

## **Declaration**

- 3.10 The valuer(s) are required to submit declarations that they comply with the requirements of these Guidelines which shall include a declaration by the firm that it meets the requirements of paragraphs 3.04 and 3.05.
- 3.11 The above declarations must be in the forms set out in Schedules 1 and 2.

## **CHAPTER 4**

### **VALUATION**

#### **Basis of valuation**

4.01 The basis of valuation is market value.

#### **Use of assumptions**

4.02 Assumptions which have not been realised 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.

4.03 Assumptions used in the valuation must be clearly stated in bold and capital letters in the terms of reference, opinion of value and other appropriate sections of the valuation report. Such assumptions must be realistic, relevant and valid and are to be adequately substantiated by reference to the physical, functional and market factors.

#### **Breaches of relevant laws and regulations**

4.04 The valuation carried out on the property asset must exclude any breaches or violation of the land and building by-laws and regulations. Where there are breaches or violation, these must be disclosed in the valuation report.

#### **Valuation approach and method of valuation**

4.05 The valuer must use the appropriate valuation approaches, showing adequate substantiation and in compliance with the relevant valuation standards issued by the Board and other applicable valuation standards recognised by professional bodies. The general approaches are:

- (a) Comparison Approach;
- (b) Cost Approach; and
- (c) Income Capitalisation Approach.

In adopting any of the valuation methods under this approach, e.g. investment method, residual method, profits method and discounted cash flow method, details of all income and expenses accrued to the property and the capitalisation/discount rates adopted must be disclosed and substantiated with market data. In the case of agricultural properties, the estimated gross income should be established by reference to the long-term sustainable price and the production yield while production cost used must be supported by past records or based on industry average.

- 4.06 At least two valuation approaches are to be adopted. Where only one approach is adopted, reasons for this departure must be disclosed.
- 4.07 The valuer must provide the rationale in the reconciliation of the values derived from the different methods employed.
- 4.08 The valuer must ensure that the data adopted are adequate, verified, correctly analysed and followed through in arriving at the value conclusion. Adjustments made must be consistent, appropriate, justified and with explanatory notes provided.
- 4.09 When applying the appropriate method(s) of valuation, the valuer must ensure the following details are considered and disclosed:

### **Comparison Approach**

- 4.10 The Comparison Method
  - (a) Appropriate and adequate comparables;
  - (b) Details of the comparables must include, but not be limited to the following:
    - (i) Identification and description of the property;
    - (ii) Date of sale;
    - (iii) Tenure;
    - (iv) Land and/or built-up/net lettable areas;
    - (v) Purchase price;
    - (vi) Breakdown of land and building values;

- (vii) Names of vendor and purchaser;
- (viii) Terms and conditions of sale (where available);
- (ix) Planning details;
- (x) Types of cultivation in the case of agricultural properties; and
- (xi) Where sale and purchase agreements, options, offers and bids are considered, the nature of such information.

; and

- (c) The adjustments made on the comparables used to arrive at the value. Such comparables must be inspected to ensure all dissimilarities had been fully considered.

## **Cost Approach**

### 4.11 The Cost/Replacement Cost Method

- (a) The actual construction or tender cost where available;
- (b) The rates adopted in the valuation for buildings, structures and any other improvements;
- (c) The adjustments made on comparables used to arrive at the value. Where the depreciated replacement cost is adopted, details of the replacement cost and incidental costs; and
- (d) The depreciation rates adopted and their bases.

## **Income Capitalisation Approach**

### 4.12 The Investment Method

- (a) The gross income and other income from non-related property items e.g. intangibles;
- (b) The sustainability or otherwise of the income used in the valuation of the property. The projected income must be market derived;

- (c) Actual outgoings for the past three years. Outgoings and other operating expenses adopted must be supported and market derived;
- (d) Any major capital expenditure on repairs or maintenance likely to be incurred in the immediate future;
- (e) In the case of tenanted properties,
  - (i) a schedule showing details of existing tenancies such as names of tenants, terms, rentals and service charges. Disclose where tenants are related to the landlord/vendor; and
  - (ii) Analysis of comparable data on rentals, outgoings, voids and capitalisation rates and their comparability to the property being valued;
- ; and
- (f) Market evidence to support the capitalisation and discount rates that reflect the risk of the business.

#### 4.13 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 approved layout plan is not in place, adequate market or feasibility study undertaken by another 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 where contracts are awarded, the actual tender sum;
- (d) Market evidence to support the rates of absorption and the development period; and
- (e) The discount rate adopted which must be market derived.

#### 4.14 The Profits Method

- (a) Audited accounts of the business for the past three years;
- (b) Detailed workings showing estimation of annual 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.

#### 4.15 The Discounted Cash Flow Method

- (a) Detailed workings showing estimation of the cash flows which must be market derived; and
- (b) Market evidence to support the capitalisation and discount rates that reflect the risk of the business.

#### 4.16 Other methods

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

## **CHAPTER 5**

### **CONTENTS OF VALUATION REPORT**

#### **General principles**

- 5.01 A valuation report must be clear and not misleading. The valuer must ensure disclosure of all material information and all information disclosed is adequate and accurate.
- 5.02 The report must contain among others, the analytical process, data and information used to arrive at the valuation conclusion.

#### **Contents of report**

- 5.03 A valuation report must contain, but not be limited to the following (further disclosure requirements are required for specific property assets as stated in Chapter 7):

#### **Client and instructions**

- 5.04 The report must be addressed to the applicant/issuer undertaking a corporate proposal; and
- 5.05 Details of the instructions including any special conditions and/or assumptions must be clearly stated in the report.

#### **Purpose of valuation**

- 5.06 The purpose of the valuation report must be clearly stated. The report must state that it is prepared in compliance with these guidelines.

#### **Identification of the property**

- 5.07 This must be stated in a clear manner by reference to the lot number, title number and address.

#### **Material date of valuation**

- 5.08 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 of the valuation report.



## **Inspection and referencing**

- 5.09 The date of inspection together with the name(s) of the person(s) involved and the extent of the inspection must be stated.

## **Interest to be valued**

- 5.10 The legal interest/ownership in the property asset must be properly ascertained and clearly stated; and
- 5.11 In the case of joint venture interests in development properties, 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.

## **Title details**

- 5.12 The date and place where the title search is conducted must be stated in the report.  
Where title details of the property are not maintained, kept or are not available at the land offices, the source of such details must be disclosed. Where title has yet to be issued, such as in the case of strata properties or where the interests involve licences, permits or leases, the relevant certified documents ascertaining the respective legal interests must be provided and the relevant details disclosed; and
- 5.13 Any legal interpretations of matters in the title that may have a direct or indirect influence on the value of the property must be provided.

## **Description of property**

- 5.14 Description of the property asset must include, but not be limited to the following:
- (a) Location and accessibility. Site and location plans must be provided for identification of the property;
  - (b) Age, description, use, accommodation, construction details of buildings, amenities and services;
  - (c) Dimensions and areas of land and buildings, together with copies of the approved building plans and certificate of fitness for occupation. Where such documents are not available, clarification/status of these documents are to be obtained from the

relevant authorities/ professionals;

- (d) Disclosure of any breaches of the relevant laws, regulations, rules and requirements relating to the property assets;
- (e) Recent significant refurbishment or renovation, if any;
- (f) 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;
- (g) For industrial property, details of factory buildings such as design, span, heights to eaves and ridges as well as the type of manufacturing activity;
- (h) For property 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 must also be provided;
- (i) For hospitality/leisure property e.g. hotel, theme park etc., details such as types and pricing of products offered, rating, occupancy/take-up rate, profile of income, operating expenses and costs of development;
- (j) For agricultural property, details of the cultivation such as types, 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;
- (k) For ongoing property development project, details pertaining to the sales status/ pre-let and construction progress of the ongoing phases together with a summary of the sales value and the relevant contracts awarded;
- (l) For timber concession, details relating to infrastructure, area statement of the forest, felling restrictions, merchantable timber stock by species mix, estimated recoverable volume, past yields (if applicable), operational costs, statutory obligations and other significant features e.g. distance to base camp/sawmill/ port, EIA requirements, customary rights etc.;
- (m) [deleted];
- (n) For ease of reference, adequate visual presentation of the property;

- (o) Problems relating to setback, encroachments, squatters and other detrimental factors, if any; and
- (p) Site stability, especially buildings on ex-mining land, swampy sites or hill slopes. Where required, the valuer must comment whether other expert's reports e.g. a geotechnical survey or an environmental impact assessment has been taken into consideration.

### **Experts' reports**

5.15 Experts' reports must be provided and considered in the valuation of specialised assets where the input of experts is required e.g. in the valuation of timber concession.

### **Neighbourhood**

5.16 A description of the surrounding development, availability of communications, amenities and utilities must be provided.

### **Planning provisions**

5.17 Planning proposals and existing permissions must be disclosed. Any conditions attached to the relevant planning approvals that may affect value must be given due consideration. Where reference is made to the existence of any approvals, copies of such approvals must be attached.

### **Assumptions**

5.18 Where assumptions are used in the valuation, such assumptions must be clearly stated in bold and capital letters as required in paragraph 4.03.

### **Acquisition details**

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

- (a) Date of acquisition;
- (b) Cost of acquisition;

- (c) Total cost expended on property after acquisition;
- (d) Parties involved and their relationship (where available);
- (e) Salient terms and conditions in the sale and purchase agreement (where available); and
- (f) Existing use at the time of sale (where available).

### **Basis of valuation**

5.20 The definition of the basis of valuation must be provided.

### **Valuation approach and method of valuation**

5.21 The two valuation approaches adopted must be described. Where only one approach is used, an explanation must be given.

5.22 The methods adopted must comply with Chapter 4 of these guidelines.

5.23 The rationale and justification in the reconciliation of the value indications derived from the different methods in arriving at the final opinion of value must be provided.

### **Evidence of values**

5.24 Appropriate and adequate market evidence; the analysis and reconciliation relevant to the method of valuation must be provided to support the opinion.

5.25 All comparables must be shown on a plan in relation to the subject property.

5.26 Photographs of all comparables must be attached.

5.27 The sources and nature of information relied upon in the valuation must be provided.

## **Property market/industry outlook**

- 5.28 The valuer must discuss and consider the prevailing market condition. This must include the supply and demand affecting the area, property or industry sector concerned and any adverse factors that may affect the value of the property.
- 5.29 In the valuation of a foreign property, the report must also provide some brief information on the economic, social and political background of the country where the property is located.
- 5.30 The sources of the information are to be disclosed.

## **Opinion of value**

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

## **Certification and authentication**

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

## **Appendices**

- 5.35 Relevant documents such as detailed workings, maps, location plan indicating the comparables on the subject property, photographs, relevant documents and declarations by the firm and valuer(s) are to be attached.
- 5.36 Where applicable, original copies must be attached. In cases where duplicated copies are attached, these are to be certified by the relevant parties.

## **CHAPTER 6**

### **VALUATION CERTIFICATE**

#### **Requirement for valuation certificate**

- 6.01 Valuation carried out in compliance with these guidelines should include a valuation certificate which forms part of the prospectus/circular. A valuation certificate is a condensed form of a valuation report.
- 6.02 The valuation certificate must be signed and dated. It must contain clear, accurate and adequate information; and not misleading to enable investors and investment advisers make informed investment decisions.
- 6.03 The SC may, at its full discretion, require any additional information pertaining to the valuations of property assets.
- 6.04 If the valuer becomes aware of significant changes affecting the valuation and contents of the valuation report/certificate, either–
- (a) between the date of the valuation and the issue of the prospectus/circular; or
  - (b) after the issue of the prospectus and before the issue of the shares/units;
- then the valuer has an ongoing obligation to either cause his report/certificate to be updated for the changes and, where applicable, cause the corporation to issue a supplementary prospectus or replacement prospectus, or withdraw his consent to the inclusion of the certificate in the prospectus/circular. Failure to do so will result in the corporation, promoters and the valuer being liable for any misleading statement or material omission.
- 6.05 The valuation certificate may include a property schedule, where necessary.

#### **Contents of valuation certificate**

- 6.06 The certificate must contain, but not be limited to the following:
- 6.07 Basic Requirements–
- (a) Addressee;

- (b) Details of instructions;
- (c) Purpose of valuation;
- (d) Basis of valuation;
- (e) Statement to affirm reference and compliance with relevant and applicable valuation standards/guidelines;
- (f) Market value/summary of market value as stated in the property schedule, where applicable;
- (g) Name(s), qualification(s), registration number(s) and signature of valuer and joint valuer, where relevant; and
- (h) Information on legal opinion, with regard to ownership, joint venture interest, title restrictions, encumbrances etc., where relevant.

#### 6.08 Detailed requirements–

- (a) Identification of property
  - (i) Property identification/address;
  - (ii) Interest valued;
  - (iii) Details on tenure;
  - (iv) Category of land use;
  - (v) Registered/beneficial owner; and
  - (vi) Location of property;
- (b) General description
  - (i) Real estate:
    - Brief description of land and/or buildings;
    - Land and/or build-up/net lettable areas;
    - Brief description of its existing use;
    - Relevant planning approvals/details; and
    - Information specific to the type of property, but not

be limited to the following:

Property generating rental income

- Records of occupancy rate, rentals, outgoings and relevant details of tenancy documents.

Hospitality/leisure property

- Records of occupancy/take up rate, income, operating expenses and relevant details of management agreement.

Plantation/agriculture property

- Type of planting, records of yields (according to age) and production costs.

Ongoing property development project

- Details on the selling prices, stage of completion, pre-let/ sale performance and estimated date of completion.

Timber concession

- Type of product, volume, restrictions, yields/production records, production costs and relevant details of licences/permits.

(ii) Plant, machinery and equipment:

- Brief description and type, capacity, age, economic life, state of repair/condition and special tools and accessories.

(c) Market value

(i) General

- Market value of the property;
- Date of valuation;
- This must be within a reasonable time of the issue of the prospectus/ circular and in compliance with the requirements of the Expert Reports under the



Prospectus Guidelines – Equity and Debt and Prospectus Guidelines for Collective Investment Scheme issued by the SC;

- Method(s) of valuation adopted;
- Sources of information relied upon in the valuation which may include experts' reports, contract documents or any other documents;
- Any other matters which may materially affect the values and the marketability of the property; and
- Where the valuation involves foreign property assets, the market value will also be reported in Malaysian ringgit and the exchange rate at the date of valuation.

(ii) Valuation

The valuation must be supported and justifications on the following parameters must be provided:

- Comparison/Cost Method
  - Identification and description of the comparables such as type, location, date of transaction, land and/or built-up/net lettable areas, tenure, planning, etc;
  - Analysis of the comparables/transactions and the adjusted values/rates;
  - Reasoning on how the adjusted values/rates are arrived at; and
  - The details must be presented in a table form.
- Investment Method/Profits Method
  - Summary of the parameters adopted;
  - Analysed rates of income and expenditures adopted; and
  - Capitalisation rate.

- Residual Method
    - Summary of the parameters adopted;
    - Analysis of the Gross Development Values and Gross Development Costs adopted;
    - Take-up rates and development period; and
    - Capitalisation rate.
  - Discounted Cash Flow Method
    - Summary of the parameters adopted;
    - Analysed rates of the income and expenditures adopted;
    - Projections/forecast;
    - Discount period; and
    - Discount rate.
  - Other methods
    - Summary of the parameters adopted; and
    - Analysis of each of the items considered.
- (iii) Rationale and justification in the reconciliation of the final value derived from the different methods of valuation must be provided.

## **CHAPTER 7**

### **REQUIREMENTS FOR VALUATION OF SPECIFIC PROPERTY ASSETS**

7.01 The objective of this chapter is to set out the requirements for valuation of specific property assets that need to be considered and disclosed by the valuer.

#### **PART A: VALUATION OF PLANT, MACHINERY AND EQUIPMENT**

##### **Basis of valuation**

7.02 In determining the market value of plant, machinery and equipment (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.

7.03 In cases where removal of the PME is envisaged, the following must be considered:

- (a) Whether there is time limit for the removal, such as 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.

7.04 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 on the building services when valuing the PME.

7.05 Consideration must 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.

### **Valuation approach and method of valuation**

The following details are to be disclosed:

#### 7.06 The Comparison Method

- (a) The description of comparable/evidence used to arrive at the market value must 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.

#### 7.07 The Cost/Depreciated Replacement Cost Method

- (a) The gross current replacement cost of each PME must 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.

#### 7.08 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.

### **Contents of valuation report**

In addition to the requirements in Chapter 5, the valuation report conducted on PME, must contain, but not be limited to the following:

#### 7.09 Interest to be valued

- (a) An inventory, which must include all the relevant details of the PME as certified by the client. PME on leases are to be excluded.

#### 7.10 Location of PME

- (a) A general description of the premises where the PME is located; and
- (b) Where the PME being valued is housed in multiple buildings, a site layout plan showing and identifying all the PME within the buildings.

#### 7.11 Description of PME

- (a) A general description of the operation of the business concerned and the capacity of the plant;
- (b) A brief description of the PME by processes/functions with the detailed description to be fully covered in the valuation section; and
- (c) The process flow charts of the functions of the PME.

#### 7.12 Acquisition details

- (a) The following details of PME which have been disposed/acquired/leased within two years (or a longer period if the valuer considers this relevant) from the date of valuation:

- (i) Date of acquisition/lease;
- (ii) Purchase price/rental; and
- (iii) Make-ready cost (where applicable).

#### 7.13 Methods of valuation

- (a) Clear description of the methods of valuation adopted. Where different methods are used in the valuation of different machines, the application of such methods must be disclosed.

#### 7.14 Valuation

- (a) Detailed workings in arriving at the market value of the PME. Such details must include, but not be limited to the following:
  - (i) Identification of the PME which will include details such as the name, type, registration number, identification number or serial number of the PME, where applicable;
  - (ii) Description of the PME which will include details such as name of maker, manufacturer, builder, supplier, model name/type, country of origin, age, year of make, size or capacity (measured or given), dimensions and specifications of the PME, where applicable;
  - (iii) Additional tools and accessories which will include all tools and accessories in use with the PME together with the necessary foundation and service connections;
  - (iv) State of repair and condition;
  - (v) Total economic life;
  - (vi) Adjustments made on the comparables; and
  - (vii) Basis and rate of depreciation.

#### 7.15 Industry/market outlook

- (a) A discussion on the general prevailing industry outlook and the technological changes that have bearing on the market value of the PME including the adverse factors affecting marketability of the PME.

## 7.16 Appendices

- (a) Relevant documents such as licences, certificate of registration and classification may be included as appendices; and
- (b) Where applicable, original copies of the above must be attached. In cases where duplicated copies are attached, these are to be certified by the relevant parties.

## **PART B: VALUATION OF DEVELOPMENT PROPERTY**

7.17 In valuing a development property, the valuer must consider the following:

### **Land with ongoing projects**

7.18 Due care and attention must be given to all costs, sales, timing of cash flows and the determination of all future costs, liabilities and commitments. Due adjustments must be made in the valuation for amounts billed for sold units and total costs for completed works as certified by the relevant professional.

### **Land for immediate development**

7.19 Residual or discounted cash flow method can only be adopted for land that can be developed in the immediate future where the type and timing of development proposed are realistic and justifiable.

### **Land for future development**

7.20 For the remaining area where the development is not in the immediate future, the comparison method is to be adopted taking into consideration that the remaining land is not for immediate development.

## **PART C: VALUATION OF JOINT VENTURE INTERESTS**

7.21 The valuation of such interests is subject to the following conditions:

- (a) Layout plan for the proposed development must be approved and development order obtained;
- (b) Constructions must have commenced and contracts awarded;

- (c) The joint venture interest must be on land that can be developed in the immediate future within the next five years; and
- (d) A written confirmation by the corporation (holding the joint venture interests) all terms and conditions of the joint venture/development agreement have been fully complied with to date.

7.22 In valuing joint venture interests, the valuer must consider and disclose the following:

- (a) Nature of interest and rights in the joint venture which the applicant/issuer has or is intending to acquire;
- (b) The contractual obligations of the parties involved in the joint venture;
- (c) Salient terms and obligations in the joint venture agreement. Terms and obligations that are still outstanding and how such terms and obligations have been considered in the valuation;
- (d) The risks and uncertainties associated or attached to such interests;
- (e) The equity and profit sharing-arrangements of the parties to the agreement; and
- (f) Legal opinion, where relevant.

## **PART D: FOREST ASSESSMENT REPORT**

7.23 The forest assessment report (FAR) must be prepared by an independent qualified forester for the valuation of a timber concession or forest plantation.

7.24 The FAR submitted must be dated not more than one year from the date of receipt of the related submission by the SC.

### **Objectives**

7.25 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.

The above information is among the factors to be taken into consideration in the determination of the market value.

### **Qualifications of forester**

7.26 The FAR for submission to the SC must be prepared by an independent 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 and competence in carrying out a forest inventory; and
- (d) Has no record of disciplinary action taken against the forester by IRIM in the past three years.

7.27 Where the timber concession or forest plantation is located overseas, the FAR must be prepared by–

- (a) a qualified forester as defined under paragraph 7.26; or
- (b) a forester who has the experience and competence; and is registered with a recognised professional body in the country where the timber concession or forest plantation is located; and has no record of disciplinary action taken by the professional body in the past three years; or
- (c) joint foresters i.e. jointly by the abovementioned foresters.

## **Independence of forester**

7.28 An independent forester is a forester–

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

## **Declaration**

7.29 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. The declaration must be in the form as set out in Schedule 3.

## **Conflict of interest**

7.30 The forester must not accept any engagement to conduct forest assessment for the corporation in cases where there may be an actual or potential conflict of interest.

## **Contents of the FAR**

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

7.31 Client and instructions

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

7.32 Purpose

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

7.33 Date of assessment

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

### 7.34 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.

### 7.35 Description of the forest

The FAR must provide the following information:

- (a) Forest types, e.g. dipterocarp, non-dipterocarp, plantation, mangrove, peat swamp forests, etc.;
- (b) Topography;
- (c) 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.;

- (d) Area statement

To state in terms of hectareage 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 there may be areas that are inoperable due to difficult terrain, shifting cultivation, areas designated as conservation areas or other protected areas;

- (e) 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 corporation's proposed infrastructure works;

- (f) Other significant features

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

- (g) In the case of plantation forest, the following information must also be included:

- (i) The types of species planted, their ages and areas planted;

- (ii) Silviculture history;
- (iii) Harvesting/rotation age; and
- (iv) The feasibility of the plantation forest in relation to the site and topography, soil conditions, drainage and type of tree species planted/to be planted.

; and

- (h) To provide further information on the property using satellite imagery or aerial photographs. The image must be of five megapixel 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.

#### 7.36 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.

7.37 Results and interpretation of the forest inventory

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

7.38 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 must be signed or jointly signed and dated by the forester(s).

### 7.39 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.

## **CHAPTER 8**

### **SUBMISSION OF REPORT**

#### **Procedures in submitting valuation report**

- 8.01 All valuation reports must be submitted by the independent valuer through the head office.
- 8.02 The valuation reports must be submitted to the SC by the principle adviser prior to the submission of the corporate proposal, for expediency. The valuation reports must be submitted not more than one month but at least two weeks before the submission of the corporate proposal.
- 8.03 A report must 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.
- 8.04 The firm and valuer(s) are to submit the necessary declarations in the forms specified in Schedules 1 and 2.

#### **Valuation report checklist**

- 8.05 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 must 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. The checklist is set out in Schedule 4.

#### **Content of submission of valuation reports for property assets**

- 8.06 The cover letter, signed by two authorised persons<sup>1</sup> of the principal adviser, accompanying the valuation reports must contain and/or be accompanied by the following minimum information and documents:
- (a) Brief particulars of the corporate proposals;

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<sup>1</sup> Any subsequent application and/or correspondence relating to the proposal should be signed by two authorised signatories of the principal adviser.

- (b) For related-party transactions, details of the nature of interest of the related parties, including direct and indirect shareholdings of the related parties in the applicant;
- (c) List/summary of the property assets involved in the valuation exercise, including identification, net book values and market values assessed by the valuer;
- (d) Disclosure of any breach of relevant laws, regulations, rules and requirements relating to the property assets;
- (e) Copies of relevant agreements relating to the property assets and/or transactions (where such agreements are not included in the valuation reports);
- (f) Two copies of the original valuation reports together with the valuation report checklist;
- (g) Two copies of the original valuation certificates;
- (h) Tentative date for the submission of application for the corporate proposals to the SC; and
- (i) Application for waivers and exemptions from any provisions on valuation of assets under these guidelines.

8.07 Submissions of valuation report(s) by principal adviser should be addressed to:

The Chairman  
Securities Commission Malaysia  
3 Persiaran Bukit  
Kiara Bukit Kiara  
50490 Kuala Lumpur

### **Fees and charges**

- 8.08 The details of fees payable to the SC are as prescribed in the Regulations related to fees issued under section 378 of the CMSA.
- 8.09 In addition, charges may be payable to the SC for incidental expenses incurred on the review of the valuations.



**Schedule 1**  
(Paragraph 3.10)

**Declaration by Firm**

The Chairman  
Securities Commission Malaysia

**Dear Sir**

**Declaration required under paragraph 3.10 of the Asset Valuation Guidelines**

We,.....(name of the firm)....., have been instructed by .....(the client) ..... to carry out a valuation on.....(the subject property[ies]).

2. We declare that the firm, after having made all reasonable enquiries, satisfies the following requirements–
  - (i) has is not subject to any sanction, disciplinary action or investigation which might lead to disciplinary action by any relevant regulatory authorities or professional bodies;;
  - (ii) has sufficient internal controls and procedures to ensure that the requirements of these Guidelines are complied with and valuations conducted have gone through a peer review process;<sup>2</sup>
  - (iii) neither the firm's partners or directors are directors nor employees of the client or have significant financial interest therein; and
  - (iv) the client does not have any significant financial interest, direct or indirect, in the firm.
3. We declare that the valuation report(s) has been prepared in compliance with the Asset Valuation Guidelines.
4. We undertake to provide to the SC all such information as the SC may require under the Asset Valuation Guidelines.

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<sup>2</sup> The firm is to provide details of the internal controls and procedures that are in place at the head office and branches. Details required must be in the form set out in Schedule 1-1.

I make this declaration as .....(designation of director)....of....(name of firm)...  
under the authority granted to me by a resolution of the Board of Directors on  
.....(date of resolution).....

Yours  
faithfully,

.....(Signature).....

Name of authorised signatory:

Name of firm:

Registration number:

Date:

## Schedule 1-1

### Details of Internal Controls and Procedures

1	Head office	Controls in place
2	Branches	Controls in place

## **Schedule 2**

(Paragraph 3.10)

### **Declaration by Valuer**

The Chairman  
Securities Commission Malaysia

**Dear Sir**

### **Declaration required under paragraph 3.10 of the Asset Valuation Guidelines**

I,.....(name of registered valuer).....from.....(the firm)..... have been instructed by.....(the client ) to carry out a valuation on.....(the subject property[ies]).

2. I declare that–

- (i) I am neither a director nor an employee of the client and do not have any significant financial interest, direct or indirect, in the client;
- (ii) the partners or directors of the Firm are neither the directors nor employees of the client and they do not have any interest, direct or indirect, in the client;
- (iii) the client does not have any significant financial interest, direct or indirect, in the firm;
- (iv) I have no actual or potential conflict of interest with the client;
- (v) I possess requisite qualifications and experience as stated in paragraph 3.03 of the Asset Valuation Guidelines to carry out the above valuation; and
- (vi) the valuation report(s) has been prepared in compliance with the Asset Valuation Guidelines.

Yours faithfully,

.....(Signature).....

Name:

Designation:

Registration number:

Date:

**Schedule 3**  
(Paragraph 7.29)

**Declaration by Forester**

The Chairman  
Securities Commission Malaysia

**Dear Sir**

**Declaration required under paragraph 7.29 of the Asset Valuation Guidelines**

I,.....(name of forester).....from.....(the firm)..... have been instructed by.....(the client)..... to carry out a forest assessment report on.....(the subject property[ies]).

2. I declare that–

- (i) I am neither a director nor an employee of the client and do not have any significant financial interest, direct or indirect, in the client;
- (ii) the partners or directors of the firm are neither the directors nor employees of the client and they do not have any interest, direct or indirect, in the client;
- (iii) the client does not have any significant financial interest, direct or indirect, in the firm;
- (iv) I have no actual or potential conflict of interest with the client;
- (v) I possess requisite qualifications and experience as stated in paragraph 7.26 of the Asset Valuation Guidelines to carry out the above forest assessment report; and
- (vi) the forest assessment report has been prepared in compliance with the Asset Valuation Guidelines.

Yours faithfully,

.....(Signature).....

Name:

Designation:

Registration number:

Date:

## Schedule 4

### Valuation Report Checklist

This checklist is to ensure the valuation reports submitted to the SC contain the basic requirements set out in the Asset Valuation Guidelines. 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 the adviser and Parts II and III to be filled by the valuer.

Part I	
Applicant/issuer	: _____
Type of proposal proposal	: _____
Date of valuation is less than six months from	: <u>Yes/No</u> _____
Contact person (HQ)	: _____
Address	: _____
Telephone/Mobile/Fax	: _____ _____
Contact person (site)	: _____
Telephone/Mobile/Fax	: _____
Principal Adviser	: _____ _____
Contact person	: _____
Telephone/Mobile/Fax	: _____ _____
Signature	: _____
Name (authorised person)	: _____
Date	: _____

**Part II**

Valuation firm : \_\_\_\_\_

Valuer(s) : \_\_\_\_\_

Telephone/Mobile/Fax : \_\_\_\_\_

Details of property

- Type of property : \_\_\_\_\_
- Address : \_\_\_\_\_
- Lot number(s) : \_\_\_\_\_
- Mukim/District : \_\_\_\_\_
- State : \_\_\_\_\_
- Market value : \_\_\_\_\_
- Date of valuation : \_\_\_\_\_

**Part III**

No.	Disclosure Requirements	Item No	On Page	Comments
<b>General</b>				
1	Client and instructions i. Report addressed to the applicant/issuer ii. Details of instructions stated			
2	Purpose of valuation i. Statement that the report is prepared in accordance with the <i>Asset Valuation Guidelines</i> ii. Type of corporate proposal			
3	Interest to be valued			
4	Date of inspection with name(s) of person(s) involved			

<b>PART III</b>				
<b>No.</b>	<b>Disclosure Requirements</b>	<b>Item No</b>	<b>On Page</b>	<b>Comments</b>
<b>Property Description</b>				
5	<p>Title particulars:</p> <ol style="list-style-type: none"> <li>i. Title search conducted</li> <li>ii. Basic details of title</li> <li>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"> <li>• Relevant certified document(s) ascertaining the legal interest</li> <li>• Disclosure of relevant details of the above document(s)</li> </ul> </li> </ol>			
6	<p>The following descriptions provided:</p> <ol style="list-style-type: none"> <li>i. Location and neighbourhood</li> <li>ii. Site and/or building</li> <li>iii. Comments on building approval</li> <li>iv. Disclosure of any breaches of the relevant laws, rules and regulations</li> <li>v. Planning provision and existing permissions and/or details of proposed development</li> </ol>			
7	<p>Information specific to the type of properties:</p> <ol style="list-style-type: none"> <li>i. Industrial property [paragraph 5.14 (g)]</li> <li>ii. Property generating rental income [paragraph 5.14 (h)]</li> <li>iii. Hospitality/leisure property [paragraph 5.14 (i)]</li> <li>iv. Plantation/agricultural property [paragraph 5.14 (j)]</li> <li>v. Ongoing property development project [paragraph 5.14 (k)]</li> <li>vi. Timber concession [paragraph 5.14 (l)]</li> <li>vii. Extractive industry [paragraph 5.14 (m)]</li> <li>viii. Plant, machinery and equipment (paragraph 7.02–7.16 )</li> <li>ix. Joint venture interest (paragraph 7.21–7.22)</li> </ol>			
<b>Valuation</b>				
8	Basis of valuation and assumptions (if any)			



<b>PART III</b>				
<b>No.</b>	<b>Disclosure Requirements</b>	<b>Item No</b>	<b>On Page</b>	<b>Comments</b>
<b>Valuation</b>				
9	Valuation approach and method of valuation i. Two valuation approaches adopted ii. Detailed valuation workings and explanation iii. Reconciliation of final value			
10	Property market condition/industry outlook			
<b>Certification and Authentication</b>				
11	Report signed by registered valuer(s) or joint valuer(s) with name(s), qualification, registration number(s) and date of signing stated			
<b>Appendices</b>				
12	All letters/approvals from relevant authorities in support of valuation			
13	Certified copy of titles/licences/permits/leases			
14	Copies of relevant documents and original expert's reports			
15	Approved building plans/certificate of fitness for occupation (where applicable)			
16	All duplicated copies are certified			
17	Site and location plans (showing comparables on the subject property)			
18	Original photographs of the subject property and comparables			
19	Declaration by firm			
20	Declaration by valuer(s)			
Signature:  Name (signing valuer):  Date :				

## **BEST PRACTICES**

### **Objective**

- 1.01 The purpose of this section is to provide clarification on the requirements of the *Asset Valuation Guidelines* (Guidelines) and guidance on what the SC regards as best practices in the valuation of property assets.
- 1.02 It is hoped that these practices will help the valuer to arrive at a valuation that is reliable, reasonable and well-founded as required by the guidelines.
- 1.03 However, these practices are not to be regarded as an exhaustive list to be undertaken nor be regarded as the minimum level of professional practice in the valuation of property assets. The valuer should exercise his judgement on the scope and extent of the due diligence to be undertaken to ensure that his valuation has undergone a robust and rigorous process.

### ***Competence of valuer***

- 1.04 Paragraph 3.08 of the guidelines requires the valuer to possess the competence and sufficient knowledge of the particular market to undertake the related valuation. A valuer is considered to have competence and sufficient knowledge when he possesses the following:
  - 1.05 Knowledge of client:
    - (a) The client and client's business as it relates to property asset;
    - (b) The corporate proposal as it relates to property asset; and
    - (c) Usage of the valuation in the proposed corporate proposal.
  - 1.06 Knowledge and skills:
    - (a) The valuer, in valuing the property assets and preparing the valuation report, should be satisfied that he and his officer(s) involved in the valuation:
      - (i) have the relevant knowledge, necessary skills and competencies in the valuation of such assets;

- (ii) are aware of all guidelines, practice notes or other notices issued by the SC from time to time that would impact the valuation; and
  - (iii) are aware of other applicable standards, guidelines and laws;
- (b) If the valuer does not have the required level of expertise to deal with some aspects of the valuation exercise, he should decide what assistance is needed. When other experts such as specialist valuers, surveyors, engineers, financial consultants, accountants and lawyers are engaged, the valuer must ensure that they are suitably qualified and assess the reasonableness of their findings before adopting them;
- (c) When the valuer is undertaking a valuation of a property asset located overseas or outside his home base, he should ensure that he undertakes the research to secure adequate local knowledge or seek the assistance of the local valuers for input in the valuation or to carry out a joint valuation.

### ***Terms of reference***

- 1.07 The valuer needs to agree on the terms of reference with the client and principal adviser before commencing his valuation work.
- 1.08 The valuer also needs to understand the impact of the agreed terms of reference to his valuation and the use of the valuation in the proposal.
- 1.09 When the valuer is aware of any information that raises concerns relating to a valuation which requires a variation to the terms of reference already agreed, he should highlight and make recommendations in writing or e-mail to address the concerns to the client and principal adviser promptly.

### ***Critical assessment***

- 1.10 The valuer should critically examine and verify as far as is reasonably possible, the accuracy, consistency and completeness of statements and representations made, or other information relied upon by him. This should involve a probing enquiry and review of the information.

- 1.11 Where any issues arise in the course of his work, that in his professional and reasonable opinion is a matter of concern and/or disclosure, he must disclose and highlight such issues to the client and principal adviser.
- 1.12 Instructions should be declined or the valuation exercise stopped where circumstances preclude the valuer from having sufficient diligent enquiry and high quality of work.

### ***Valuation approach and method of valuation***

- 1.13 In choosing the methods to be used in the valuation, the valuer is expected to consider the information available to him, the adequacy and accuracy of such information and its relevancy.
- 1.14 The valuer, in adopting any method, should recognise the principle as stated in the International Valuation Standards, that market value is fundamentally arrived at by reference to market derived inputs.

### ***Comparison Method***

- 1.15 A reasonable and competent valuer would normally have–
  - (a) used at least three suitable and appropriate comparables;
  - (b) verified and confirmed the facts and sources of the comparables chosen;
  - (c) made and explained, where necessary, the adjustments for the dissimilarities; and
  - (d) identified the comparable(s) that he considers to be the most similar with the subject property and the rationale for his choice. The averaging of indicative values from adjusted comparables should be avoided unless the comparables used have insignificant dissimilarities between them.
- 1.16 Comparables are considered suitable and appropriate when they are not excessively adjusted for dissimilarities.
- 1.17 Where there is a lack of comparables, the valuer is expected to state the extensiveness of his research, source of information, his analysis and why the method is still being used.

- 1.18 In considering the terms and conditions of the comparable sales, the valuer should take into account, where known from private investigation or from sources accessible in the public domain, the following terms and conditions that may have an impact on the price paid:
- (a) Mode of payments;
  - (b) Timing of payments;
  - (c) Status of the property assets; and
  - (d) Any other special terms and conditions precedent granted or assumed.
- 1.19 Explanation should be given when the valuer has listed sale transactions in his report as comparables but did not rely on them in arriving at the market value of the subject property.
- 1.20 Where the comparables comprise land and building components e.g. factory, shophouse, terrace house, and where such buildings have value, the valuer is expected to analyse the land and building components separately, so that the values for the land and buildings reflect market derived rates.

### ***Cost Method***

- 1.21 In deciding the building rate or gross replacement cost to be adopted, the valuer will be guided by the following:
- (a) Actual cost of construction of the subject building;
  - (b) Actual cost of construction of other similar buildings; and
  - (c) Estimates provided by the relevant professionals and/or sourced from recognised publications.
- 1.22 The valuer is to exercise due care when analysing the construction cost obtained from various sources to avoid double counting.
- 1.23 In adopting the actual construction cost as the basis of estimating the value, the valuer is to make reference to the market to ensure that the said cost is realistic and not inflated.

- 1.24 Depreciation rates should be carefully assessed and at the minimum should include at least three different elements i.e. physical deterioration, technological and functional obsolescence, and economic obsolescence.
- 1.25 Particular attention must be paid to economic obsolescence or obsolescence that is external to the subject property to ensure that the valuation does not result in an estimate higher than market value.

### ***Income Capitalisation Approach***

- 1.26 The valuer is expected to have a good working knowledge of the relevant industry in order to realistically estimate both the gross revenue and gross expenditure. Information provided by the company should be checked for consistency with the established industry averages or market evidence. Appropriate commentary on these issues and the rationale to adopt such averages is to be provided in the report.
- 1.27 It is the task of the valuer to assess the sustainable net operating income that can be achieved by a reasonably efficient operator. In determining the potential profits or earnings of the business, while the valuer may refer to the past and current operation, the valuer also needs to understand the achievable profits or earnings of all potential operators and buyers, by comparing these to similar types and styles of operation, before coming to the opinion of value.
- 1.28 In discussing the industry or property market outlook, the valuer should explain the impact of such outlook to the valuation of the subject property.
- 1.29 In determining the capitalisation rate or discount rate, the valuer should consider the following:
  - (a) Transactions of similar property assets;
  - (b) Yield of similar property assets;
  - (c) Specific risks associated with the subject property; and
  - (d) The prevailing market borrowing or lending rate.

### ***Investment Method***

- 1.30 In the computation of the reversionary interest, market rent as at the date of valuation is to be adopted and the lease terms such as the service charges, repairing and insurance terms to be stated.

### ***Residual Method***

- 1.31 In the determination of the gross development value, the valuer should consider the current selling prices of similar properties in the market.
- 1.32 In analysing the contracts awarded and estimation made by the relevant experts, the valuer can be guided by the previous tenders already awarded. However, this will need to be compared with market data to ensure estimation made is realistic and consistent with market expectation.
- 1.33 The developer's profit adopted is the profit that a typical developer would expect for undertaking the development in the market.
- 1.34 In deciding the development period, the valuer needs to consider the following:
- (a) Past sales performance of the development;
  - (b) Sales performance of similar development; and
  - (c) Demand and take up rate for the development.

### ***Discounted Cash Flow***

- 1.35 The valuer needs to be satisfied that he can reliably determine and justify the cash flows projected.
- 1.36 The projected cash flows are normally determined by reference to past performance, preferably three years or more, of the business, where applicable and checked against general market indicators to determine achievability and reasonableness.
- 1.37 Where the income is projected to grow, the valuer will need to explain the growth rate adopted as well as the terminal income by referring to:

- (a) Past performance of the business/property;
- (b) Performance of similar business/property; and
- (c) Projections made by client.

### ***Profits Method***

- 1.38 When using this method, the potential profits or earnings are normally based on the profits or earnings before interest, taxes, depreciation and amortisation (EBITDA) on the assumption that the business will continue in operation.

### ***Valuation report***

- 1.39 The valuation report must provide sufficient information to describe the work performed, the conclusions reached and the context in which they were shaped.
- 1.40 While the guidelines prescribe the minimum contents of a valuation report, the valuer is expected to use his judgement in deciding whether additional information is required to be included in the report.
- 1.41 The inclusion of additional information is to promote clarity and better understanding of the valuation and its justification in arriving at the market value.

### ***Location plan***

- 1.42 The location plan attached should be of reasonable dimension, showing at least the nearest town/administrative centre of the area together with landmarks.
- 1.43 Comparables used in the valuation should be indicated on this plan where possible. Where it is not possible, the comparables should be indicated in relation to the subject property on a separate plan.

### ***Site plan***

- 1.44 The site plan must be of reasonable dimension where the boundaries of the subject property as well as the neighbouring plots are clearly demarcated.



### ***Layout plan***

- 1.45 The layout plan must be of reasonable dimension showing all the buildings within the boundary of the subject property, including non-approved structures which should be clearly marked.

### ***Approved building plan***

- 1.46 Certified copies of the approved building plans must be attached for all type of properties except for properties of standard developer's design and construction where a diagrammatical sketch of the floor plan by the valuer may be provided.

### ***Photographs***

- 1.47 The valuer needs to provide sufficient and adequate views, both internal and external, for a better visual representation of the subject property.
- 1.48 In the case of stratified properties, the photographs should include the view of the building where the subject property is located as well as the entrance and internal views of such unit.

### ***Valuation certificate***

- 1.49 The disclosures in the valuation certificate must be meaningful and not misleading.
- 1.50 The valuation certificate should be clear, concise and easily understood such that the investors will be able to grasp the vital information.

### ***Valuation of specific properties***

- 1.51 The examples provided below are merely illustrations of what is expected to be covered in the valuation of certain properties. However, these examples are not exhaustive and are not aimed at setting out requirements that can be applied to all situations. The valuer is expected to exercise his judgement in determining the scope and extent of due diligence in arriving at the valuation conclusion.

### *Development properties*

- 1.52 Residual and discounted cash flow methods should only be used for land that can be developed in the immediate future i.e. within the next five years so that the valuer can determine with confidence the parameters adopted in the valuation.
- 1.53 The comparables adopted in the valuation of the remaining land should be adjusted to take into consideration that the remaining land is not for immediate development, i.e. discounting time and risk, where applicable.
- 1.54 [deleted]
- 1.55 [deleted]

### *Oil palm plantation*

- 1.56 In estimating the gross revenue, the valuer needs to consider the following:
- (a) Long-term FFB Price  
The valuer is expected to adopt a long term average FFB price in their determination of a sustainable gross revenue. Generally, the CPO price for the last five years may be taken into account. However, in the event that the valuer considers a 5-year average price is not reflective of the future price trend, the valuer should use his judgement to adopt a period that he deems appropriate with explanation given for his choice.
  - (b) Projected yield  
In determining the projected yield/harvest for the plantation, reference is usually made to past three to five years yield records and client's yield projections with comparison to the average industry yield profile produced by the relevant institution.
- 1.57 The valuer may also make reference to the planting adviser's report or its equivalent to get a better understanding of the conditions and problems faced by the estate.

1.58 The gross expenditure is usually determined by referring to the past expenditure recorded as well as industry norms. The expenditure is to be disclosed as follows:

- (a) General charges (per hectare);
- (b) Upkeep and maintenance (per hectare);
- (c) Harvesting (per metric tonne);
- (d) Transportation (per metric tonne); and
- (e) Others

### ***Hotel***

1.59 In determining the projected gross revenue, the following are to be considered:

- (a) Average room rate and average occupancy rate  
In determining the projected room rate and occupancy rate, reference is usually made to the past three to five years' performance with comparison to market evidence.
- (b) Room nights available  
While the number of rooms available for sale is usually determined by referring to licences, certificates or relevant documents, this should be checked against the effective room nights available due to limitations and restrictions of the operation.
- (c) Food and beverage, and other income  
Food and beverage, and other income are often expressed as a proportion of room income. In determining the proportion, the valuer usually refers to the past three to five years' records and market evidence.

1.60 The expenditure is generally expressed as a proportion of gross income. This is usually determined by referring to the past three to five years' records as well as market evidence.

- 1.61 The valuer is expected to take into account the operator's management fee/tenant's share in arriving at the market value.
- 1.62 Where the valuer has projected income arising from capital expenditure that has yet to be incurred, appropriate and timely deductions should be made to the income flow to reflect such expenditure.