

General Information of the Respondent

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1 Do you agree that the DCF method, if properly applied, can be used as a method to arrive at market value?

HKIS - Agree.

2 Do you agree that the underlying DCF method described in this paper applies equally to the valuation of real property and businesses? If not, please explain the differences that you believe exist?

HKIS - Not really. In business valuation, a distinction has to be made between the value of the firm or the value of equity. Where the focus is on the value of the total capital to the firm with the use of free cashflows to the firm and the WACC, it may only equal to property valuation on free of further encumbrances basis. Should the business valuation focus on the equity value of a firm with the use of free cashflows to equity and the cost of equity, it may not equal to property valuation unless all the outstanding mortgage or amount has been deducted from the valuation. However, the valuation industry in Hong Kong never used such approach in performing property valuation on free of existing encumbrances basis.

3 Do you agree, or do you consider that other matters should be taken into account in determining the appropriate discount rate?

HKIS - Valuation of an asset is the capitalization of the future income of the asset on going concern basis, the valuer is required to consider all the risks associated with the future income of the asset on going concern basis, i.e. the cashflows. It is the responsibility of a valuer to ensure that he/she considered all the elements that may affect his/her use of the cashflows projection (including but not limited to the risks to the sources of the cashflows such as the business model, currency changes or government policy to the subject property/entity). Having said that, should the leasehold interest of a property is in short-term, say, several months, the associated risks to such cashflows should not be taken seriously in the valuation.

4 Do you agree that the most commonly adopted terminal value calculation at the end of the explicit forecast period is the 'constant growth' model, cross-checked for sensibility to an implied capitalisation rate or exit multiple? If not please identify what other method you most commonly use?

HKIS - Agree, for even in a three stage approach, the terminal value is still on the assumption of constant growth.

5 Do you agree that providing a discount rate is used that is consistent with the financial assumptions made in calculating the cash flows that the choice of using explicit or implicit financial assumptions in the cash flows should not affect the valuation result?

HKIS - Agree.

6 Do you agree that more detailed discussion and examples of the valuation inputs into a discounted cash flow model are inappropriate? If not how much additional information do you think should be included in best practice guidance?

HKIS - There are a lot of text books and journals talking about the theory and application of the DCF and its parameters. The purpose of the Technical Information Paper should be focused on giving general guidelines but not a user manual.