

HKEX Disclosure on Business Valuation in Transactions

In June 2023, the Hong Kong Stock Exchange (“**HKEX**”) released its 8th Listed Issuer Regulation Newsletter, covering reminders on audits, financial reporting, new share scheme rules, and business valuation disclosures. Relevant rules and instructions from the HKEX regarding Business Valuation in Transactions were cautioned.

Pursuant to Main Board Rule 14.58(5) / GEM Rule 19.58(6) (“**Rules**”) and FAQ Series 7 No. 21 of HKEX (“**FAQ**”), the Rules require issuers to disclose the basis for the consideration and the terms of the transaction. While the Rules do not generally require an independent business valuation to support the consideration agreed by the issuer, where the valuation of a target company is a primary factor in forming the basis for the consideration or other material terms of a notifiable transaction, the FAQ stipulates disclosure of the valuation would need to be made in the relevant announcement and circular as illustrated below.

General Principles for Disclosure of Valuation

To ensure adequate disclosure of valuation, the following general principles should be followed:

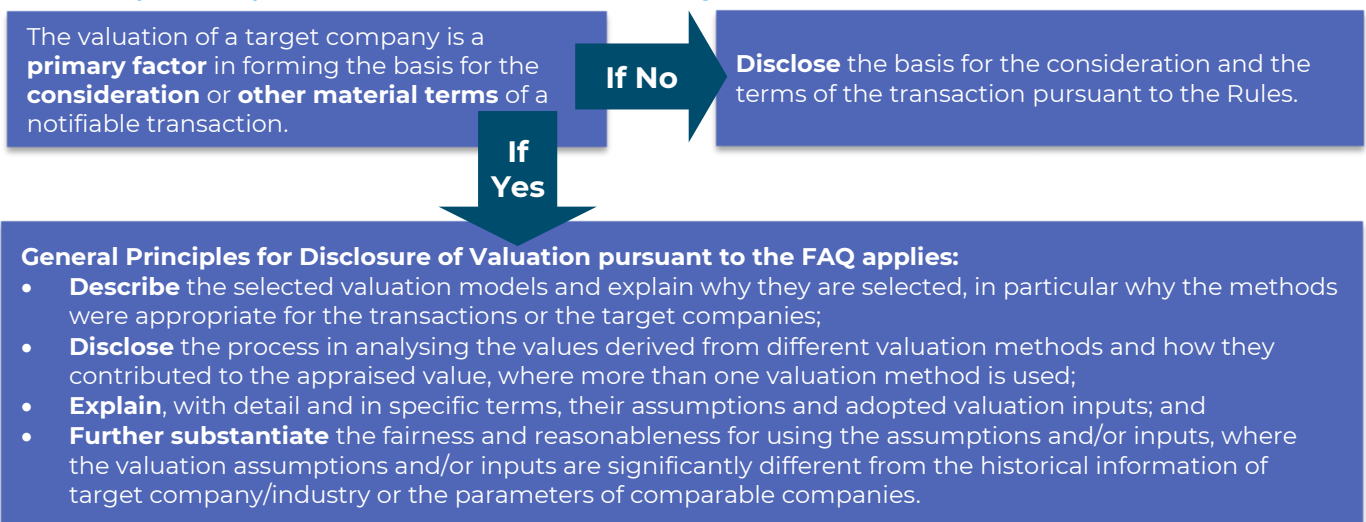
A. Selection of Valuation Methods

Issuers should describe the selected valuation models and explain why they are selected, in particular why the methods were appropriate for the transactions or the target companies. Where more than one valuation method is used, issuers should disclose the process in analysing the values derived from different valuation methods and how they contributed to the appraised value.

B. Valuation Assumptions and Inputs

Issuers should explain, with detail and in specific terms, their assumptions and adopted valuation inputs. Where the valuation assumptions and/or inputs are significantly different from the historical information of target company/industry or the parameters of comparable companies, issuers should further substantiate the fairness and reasonableness for using the assumptions and/or inputs.

Concept Map and Critical Summary



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