



MOORE TRANSACTION SERVICES

Guideline on Intellectual Property Valuation

For Intellectual Property Financing in Hong Kong

Intellectual property (“IP”) valuation is a specialised discipline concerned with the systematic assessment of the economic value of intangible assets, including patents, trademarks, copyrights, trade secrets, and other proprietary rights.

It involves the application of appropriate valuation principles, methodologies, and analytical techniques to consider the legal, economic, technological, and commercial characteristics of the subject intellectual property. This material introduces the fundamental concepts and practical considerations relevant to IP valuation for IP financing in Hong Kong, with the objective of developing a structured understanding of how intellectual property may be identified, analysed, and valued in a range of business, financial reporting, transaction, taxation, and dispute-resolution contexts.

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Introduction

Policy background

Since the 2022 Policy Address, the Government of the Hong Kong Special Administrative Region of the People's Republic of China (the "Government") has set out to develop Hong Kong into a regional intellectual property ("IP") trading centre. The early measures focused on protection, professional capacity and tax: a "patent box" in force since July 2024 taxes qualifying profits from patents, copyrighted software and plant variety rights at 5%.

The 2025 Policy Address turned to financing and valuation. It committed the Government to "push forward measures in IP financing, valuation and protection" (para 160), and to launch an IP financing sandbox for pilot sectors, particularly technology (para 161).

- **IP Financing Sandbox:** launched on 22 December 2025 by the Hong Kong Monetary Authority ("HKMA") with the Commerce and Economic Development Bureau and the Intellectual Property Department ("IPD"). Participating banks test the full lifecycle of IP-backed lending, from verifying the IP rights and obtaining an independent valuation to credit approval and taking security over the IP. The Sandbox refers to IP assets such as patents, trademarks and copyrights, and is aimed particularly at small and medium-sized enterprises that are rich in IP but short of tangible collateral.
- **Valuation expectations:** under the Sandbox's Operating Principles, valuations are expected to be carried out by independent valuers who are members of reputable professional bodies, using the income, market or cost approach. Banks may take into account fair value, market value, investment value and liquidation value.
- **Pilot Patent Valuation Support Scheme:** a two-year scheme, expected to launch in the third quarter of 2026, offering eligible Hong Kong SMEs a matching grant of up to HK\$80,000 towards an IP valuation. Applicants must own at least one patent granted after substantive examination, and holders of Hong Kong standard patents granted through the original grant patent ("OGP") route are given priority.
- **Local guidelines:** the HKMA has said that the Government will assess the need for local IP valuation guidelines incorporating standards acceptable to all stakeholders. The Government's own paper to the Legislative Council notes that valuers in the market primarily apply the three approaches in accordance with the International Valuation Standards ("IVS").

The published Sandbox documents give patents, trademarks and copyrights as examples and do not set out which types of IP, or which jurisdictions' registrations, qualify. Whether a particular IP asset can support financing is a matter for the participating bank. For that reason, the worked examples in this guideline use a Hong Kong standard patent granted through the OGP route (Chapter 6) and a character protected by copyright and Hong Kong registered trademarks (Chapter 7).

About this guideline

This guideline explains how IP is valued under IVS, for enterprises considering IP financing, and for the banks, accountants, lawyers and valuers who work with them. Chapters 1 to 5 set out the concepts, the valuation process, the three approaches and good practice. Chapters 6 and 7 work through two complete examples, one using the income approach and one the market approach. Appendix A lists the information a valuation usually needs, and Appendix B answers common questions.

General guidance only. This guideline illustrates recommended practice. It is not an authoritative standard and does not replace IVS or the professional judgement of the valuer. Every valuation depends on its own facts and circumstances, which have to be assessed case by case.

Version 1, dated 21 September 2026. This guideline will be updated from time to time as the Sandbox, the pilot scheme and market practice develop. Comments and suggestions are welcome and can be sent to Kenneth Ma at kennethma@moore.hk or Calvin Wong at calvinwong@moore.hk.

Chapter 1 - Concept of Intellectual Property

Intellectual property ("IP") is a legal concept that refers to creations of the mind which are derived from intellectual or creative effort and for which exclusive rights are recognised at law. These rights enable the owner to prohibit others from using their property without permission.

The foundational principle of IP is the right of exclusion. The legal framework provides the owner with a defined monopoly, enabling them to prohibit unauthorised third parties from manufacturing, reproducing, commercially exploiting, or otherwise utilising the protected subject matter. This legal boundary effectively transforms an abstract concept into an identifiable economic asset by establishing artificial scarcity in the market.

To function as a distinct commercial asset, intellectual property generally exhibits the following fundamental traits:

- **Intangibility:** IP lacks physical substance, i.e., its existence, parameters, and enforceability are defined entirely by legal statutes, contracts, and registrations.
- **Exclusivity:** IP primarily confers "negative rights," meaning its core economic value stems from the legal authority to exclude competitors rather than a positive right to act.
- **Transferability:** IP rights are legally severable from the originating entity. They can be independently sold, assigned, licensed, or utilised as underlying collateral in commercial financing structures.
- **Territoriality:** The recognition and enforcement of IP rights are highly jurisdictional, generally requiring specific protections to be secured within individual geographic regions.

How accounting standards define an intangible asset

Accounting standards do not define intellectual property as a separate term. Hong Kong Accounting Standard ("HKAS") 38 - Intangible Assets, which follows International Accounting Standards ("IAS") 38 issued by the International Accounting Standards Board, names intellectual property among the intangible resources on which entities spend, alongside "scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks" (para 9). It then sets out two definitions (para 8):

- **Intangible asset:** "An intangible asset is an identifiable non-monetary asset without physical substance."
- **Asset:** "An asset is a resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity."

An item that does not meet all three elements of the definition, "identifiability, control over a resource and existence of future economic benefits" (para 10), is not an intangible asset for accounting purposes:

- **Identifiability:** "An asset is identifiable if it either: (a) is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations." (para 12)
- **Control:** "An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law." (para 13)
- **Future economic benefits:** "The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues." (para 17)

These elements sit closely with the traits above. Registration and other legal rights make IP identifiable and give the owner control, and exclusivity is what allows the owner to capture the future economic benefits, whether as revenue, as royalties or as cost savings. Meeting the definition does not, however, mean that the IP appears on the balance sheet. The recognition rules are stricter, as explained in the additional information on IP in financial reporting at the end of Chapter 5.

Intellectual Property vs Intangible Asset

Intangible assets and intellectual property are interconnected but distinct concepts within the professional framework. According to the IVS, an intangible asset is a non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner. While IP relies specifically on statutory legal rights for its protection, it fits directly into the broader economic framework of the five intangible asset categories set out in IVS 210 (para 20.03):

- **Technology-related:** This category directly encompasses core IP, arising from contractual or non-contractual rights to use patented technology, unpatented technology, databases, formulae, designs, software, processes or recipes.
- **Marketing-related:** These are used primarily in the marketing or promotion of products or services. This captures IP such as trademarks, trade names, unique trade design and internet domain names.
- **Artistic-related:** These arise from the right to benefits from artistic works such as plays, books, films and music, and from non-contractual copyright protection.
- **Contract-related:** These represent the value of rights that arise from contractual agreements. Examples include licensing and royalty agreements, service or supply contracts, lease agreements, permits, broadcast rights, servicing contracts, employment contracts and non-competition agreements and natural resource rights.
- **Customer-related:** This category includes customer lists, backlog, customer contracts, and contractual and non-contractual customer relationships. While vital to the business's economic generation, these are generally not classified as traditional statutory IP.

Why this guideline relies on IVS 210

IVS does not contain a standard dedicated to intellectual property, and it does not define the term. Its asset standard for this subject is IVS 210 Intangible Assets. Intellectual property is a subset of intangible assets: patents, trademarks, copyrights, registered designs and trade secrets fall within the technology-related, marketing-related and artistic-related categories above. The principles, approaches and methods that IVS 210 sets out for intangible assets therefore apply in full when the subject of the valuation is intellectual property.

For readability, this guideline uses “intellectual property” where IVS uses “intangible asset”. Where IVS is quoted directly, its wording is reproduced unchanged. Chapter 2, Chapter 3 and sections (a) to (c) of Chapter 4 draw on the IVS General Standards and IVS 210. Sections (d) to (f) of Chapter 4 and Chapter 5 are Moore’s own guidance, which goes beyond what IVS requires.

About the International Valuation Standards

The IVS are issued by the International Valuation Standards Council (“IVSC”), an independent, not-for-profit standard setter based in London. The IVSC’s stated objective is to build confidence and public trust in valuation by producing transparent and consistent standards and securing their adoption for the valuation of assets across the world.

The IVSC was founded in 1981 in Melbourne, Australia, as The International Assets Valuation Standards Committee (“TIAVSC”), by 20 national valuation professional organisations whose members were mainly concerned with real property. It was renamed the International Valuation Standards Committee in 1994 and, from the late 1990s, admitted organisations concerned with other types of assets. Following a restructuring in 2008, it became the International Valuation Standards Council. It now has more than 170 member organisations, and IVS are referenced and used by valuers in more than 100 countries.

This guideline refers to the edition of IVS effective 31 January 2025. Paragraph references are to that edition, in which the General Standards are numbered IVS 100 to IVS 106 and intangible assets are addressed in IVS 210. The IVSC has since consulted on a further edition, proposed to take effect on 31 January 2028, so references should be checked against the edition in force at the valuation date.

The full text of IVS is published by the IVSC. A PDF copy of the current edition can be obtained free of charge by completing the registration form on the IVSC website (www.ivsc.org). Current and archived editions, together with translations, are also available by subscription through IVSonline (www.ivsonline.org).

IP Valuation Subject

The subject of IP valuation can be a single right or a portfolio of complementary IP rights and other intangible items. IP rights that are frequently the subject of transactions and valuation reports are those associated with brands, technology, artistic works and data.

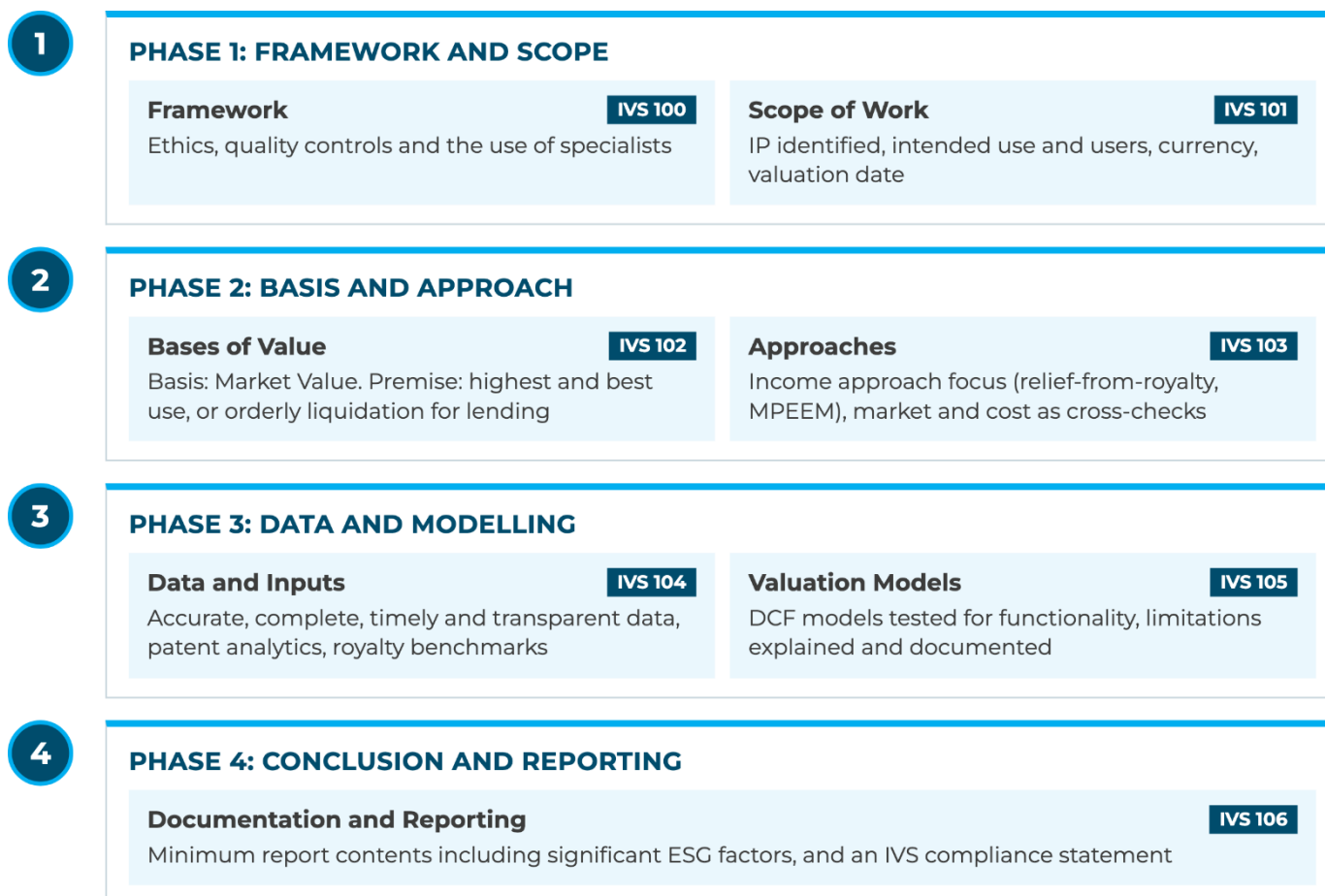
The categories below are collectively referred to as IP assets. Commercial substance is considered when grouping IP within these categories. For instance, if a brand logo is protected by copyright, it will be categorised as brand-IP, rather than artistic-IP, to mirror its commercial use. IP assets can comprise several distinct legal rights and the ownership of these rights can vary between jurisdiction and class of product and service.

IP category	Typical rights	IVS 210 category
Brand-related IP	Registered trademarks	Marketing-related
	Copyright in artistic works in the brand design or logo	
	Copyright in brand guidelines and marketing collateral	
Technology-related IP	Patents	Technology-related
	Technical know-how and trade secrets	
Artistic-related IP	Copyright in plays, books, films and music	Artistic-related
	Literary, dramatic, musical, architectural and cinematographic works and sound recordings	
Data-related IP	Organised compilations of data	Technology-related (IVS 210 para 20.03(e) includes databases in this category)
	Database schemas describing the structure and workings of a database	
	Algorithms and other insights extracted from the data	

Chapter 2 – Valuation Process

The adoption of the IVS is a fundamental part of the financial system, designed to promote and maintain a high level of public trust in valuation practice. For IP valuation, where lenders might rely on the value of intangible collateral, providing a transparent, consistent, and globally recognised appraisal is paramount. IVS establishes appropriate global requirements that apply both to the parties involved in the process and to those who oversee it.

Below is the guideline detailing the valuation process for IP valuation engagements.



Phase 1: Establishing the Framework and Scope

A rigorous valuation begins with establishing mandatory quality controls and defining the exact parameters of the engagement to ensure the final output is fit for its intended use in securing debt or equity financing.

- **Step 1: Implementing the Valuation Framework (IVS 100)** The valuation process must be governed by the ethical principles of integrity, objectivity, impartiality, confidentiality, competence, and professionalism. Valuation process quality controls must be established to ensure the appraisal is performed transparently, without bias, and in full compliance with the standards. Furthermore, if the valuation team lacks the necessary technical skills or data regarding a highly complex patent portfolio, it is acceptable to seek assistance from a specialist or service organisation, provided this is agreed and disclosed, and their knowledge, skill and ability are assessed and documented beforehand.
- **Step 2: Defining the Scope of Work (IVS 101)** Prior to completing the valuation report, a formal scope of work must be established and agreed upon in writing. This document describes the fundamental terms of the valuation. For IP financing, this explicitly includes identifying the specific IP assets acting as collateral, the intended use, the intended users (the lenders or financial institutions), the valuation currency, and the precise valuation date. Any limitations on the inspection, inquiry, or analysis of the IP must also be clearly identified.

Phase 2: Determining Value and Methodology

With the framework established, the process moves to selecting the appropriate premises and methodologies to quantify the economic benefits of the IP.

- Step 3: Selecting the Bases of Value (IVS 102) The basis of value describes the fundamental premises or requirements on which the reported values will be based. For financing purposes, Market Value is typically required, defined in IVS 102 (Appendix, para A10.01) as the estimated amount for which an asset and/or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. The valuer must also consider the premise of value, assessing whether the IP's highest and best use is its current deployment within the business or an alternative commercialization strategy. Where the valuation supports lending, the lender may also require a value on an orderly liquidation or forced sale premise (IVS 102, para 10.03), reflecting what the IP could realise if the security were enforced.
- Step 4: Applying Valuation Approaches (IVS 103) The selection of the valuation approach should seek to maximise the use of observable inputs, as appropriate. While the Market and Cost approaches offer specific utility, the Income Approach is predominantly utilised for IP, determining value by converting projected cash flows to a single current value. To isolate the specific cash flows generated by the IP, we deploy methods such as the Relief-from-Royalty method or the Multi-Period Excess Earnings Method (MPEEM).

Phase 3: Data Integration and Quantitative Modelling

The quantitative implementation of the selected methodology relies on robust data and unbiased financial modelling.

- Step 5: Gathering Data and Inputs (IVS 104) Inputs are derived from data, along with assumptions and adjustments, and are used in the quantitative development of a value conclusion. The valuer must apply professional judgement to balance the characteristics of relevant data, ensuring it is accurate, complete, timely, and transparent. For modern IP valuation, our team maximises the use of observable data to continuously monitor global innovation trends and benchmark the subject IP against active market realities.
- Step 6: Constructing Valuation Models (IVS 105) A valuation model converts the selected inputs into outputs used in the development of a value. These models must be suitable for the intended use of the valuation and consistent with the inputs. When assessing IP cash flows, the models must be rigorously tested for functionality to ensure they accurately capture the specific risk profile of the technology without bias. All significant limitations of the model, along with any potentially significant adjustments, must be identified, explained, justified, and documented.

Phase 4: Final Conclusion and Reporting

The final phase ensures that the lender is provided with a transparent and fully compliant deliverable.

- Step 7: Documentation and Reporting (IVS 106) An IVS-compliant valuation must possess sufficient documentation and reporting to provide transparency to the intended user regarding the valuation approaches, methods, inputs, models, professional judgements, and resultant values. The final valuation report must convey, at a minimum, the minimum content set out in IVS 106 (para 30.06), summarised below. Crucially, the report must include an IVS compliance statement, assuring the financial institution of the appraisal's professional integrity.

In summary, a report is expected to cover four areas. The full requirements are in IVS 106, which readers should consult for the exact wording:

- **The engagement:** the agreed scope of work, what is being valued, who carried out the valuation, who the client is, and what the valuation is for and who may rely on it.
- **The key parameters:** the currency, the valuation date and the basis of value.

- **How the value was reached:** the approaches and the methods or models used, where the significant data and inputs came from and why they were selected, the significant environmental, social and governance factors considered, any significant or special assumptions and limiting conditions, and any work relied on from a specialist or service organisation.
- **The conclusion:** the value and the reasoning behind it, a statement of compliance with IVS, and the date of the report, which may differ from the valuation date.

Chapter 3 - Valuation Approach in Details

There are three commonly used methodologies in IP valuation:

- A. Income approach
- B. Market approach
- C. Cost approach

The valuer will consider the nature and attributes of the subject asset, as well as the characteristics of the relevant market, in order to determine the most appropriate valuation approach.

The heterogeneous nature of many intellectual properties means that there is often a greater need to consider the use of multiple methods and approaches than for other asset classes.

A) Income Approach

Per IVS 210 (para 60.01), 'Under the income approach, the value of an intangible asset is determined by reference to the present value of income, cash flows or cost savings attributable to the intangible asset over its economic life.' As intellectual property is a category of intangible asset, the same principle applies to IP.

The impact of legal, market, functional and economic characteristics of the subject IP on all prospective financial information or forecasts should be considered.

The income approach includes several methods. The following methods are discussed in this guideline in more detail:

- excess earnings method
- relief-from-royalty method
- with-and-without method

IVS 210 (para 60.05) also names the greenfield, distributor and cost savings methods. The greenfield method is mainly used for enabling assets such as franchise agreements and broadcast spectrum, and the distributor method for customer-related intangible assets, so neither is covered further here. A cost savings approach can be relevant to process patents, where the value of the IP lies in the costs it avoids.

a) Excess earnings method

The excess earnings method estimates the value of an intellectual property as the present value of the cash flows attributable to the subject intellectual property after excluding the proportion of the cash flows that are attributable to other assets required to generate the cash flows ("contributory assets"). It is often used for valuations where there is a requirement for the acquirer to allocate the overall price paid for a business between tangible assets, identifiable intellectual properties, and goodwill.

Contributory assets are assets that are used in conjunction with the subject intellectual property in the realisation of prospective cash flows associated with the subject intellectual property. Assets that do not contribute to the prospective cash flows associated with the subject intellectual property are not contributory assets.



The excess earnings method can be applied by using:

- several periods of forecasted cash flows (“multi-period excess earnings method” or “MPEEM”),
- a single period of forecasted cash flows (“single-period excess earnings method”), or
- by capitalising a single period of forecasted cash flows (“capitalised excess earnings method” or the “formula method”).

The capitalised excess earnings method or formula method is generally only appropriate if the IP is operating in a steady state with stable growth/decay rates, constant profit margins and consistent contributory asset levels/charges.

Most intellectual properties have economic lives exceeding one period, frequently follow non-linear growth/decay patterns and may require different levels of contributory assets over time. Therefore, the MPEEM is the most commonly used excess earnings method as it offers the most flexibility and allows the valuer to explicitly forecast changes in such inputs.

Below is the list of steps the valuer would perform in applying an excess earnings method:

- forecast the amount and timing of future revenues driven by the subject intellectual property and related contributory assets,
- forecast the amount and timing of expenses that are required to generate the revenue from the subject intellectual property and related contributory assets,
- adjust the expenses to exclude those related to creation of new intellectual properties that are not required to generate the forecasted revenue and expenses. Profit margins in the excess earnings method may be higher than profit margins for the overall business because the excess earnings method excludes investment in certain new intellectual properties. For example:
 - i. research and development expenditures related to development of new technology would not be required when valuing only existing technology, and
 - ii. marketing expenses related to building a new brand would not be required when valuing an existing trademark.
- identify and value the contributory assets that are needed to achieve the forecasted revenue and expenses. Contributory assets often include working capital, fixed assets, assembled workforce and identified intangible assets other than the subject intellectual property,
- determine the appropriate rate of return on each contributory asset based on an assessment of the risk associated with that asset. For example, low risk assets like working capital will typically have a relatively lower required return. Contributory intangible assets and highly specialised machinery and equipment often require relatively higher rates of return,
- in each forecast period, deduct the required returns on contributory assets from the forecast profit to arrive at the excess earnings attributable to only the subject intellectual property,
- determine the appropriate discount rate for the subject intellectual property and present value or capitalise the excess earnings, and
- if appropriate for the intended use of the valuation, calculate and add the tax amortisation benefit (TAB) for the subject intellectual property (IVS 210, section 110).

Contributory asset charges (CACs) should be made for all current and future tangible assets, intangible assets and financial assets that contribute to the generation of the cash flow. If an asset for which a CAC is required is involved in more than one line of business, its CAC should be allocated to the different lines of business involved.

CACs are generally computed on an after-tax basis as a fair return on the value of the contributory asset, and in some cases a return of the contributory asset is also deducted. The appropriate return on a contributory asset is the investment return a typical participant would require on the asset. The return of a contributory asset is a recovery of the initial investment in the asset. There should be no difference in value regardless of whether CACs are computed on a pre-tax or after-tax basis.

Assembled workforce is usually the only element of goodwill for which a CAC should be taken, and CACs for other elements of goodwill should not be applied mechanically (IVS 210, para 60.13). If a contributory asset is not

wasting in nature, as in the case of working capital, only a fair return on the asset is required (para 60.15). Where a contributory intellectual property has itself been valued using the relief-from-royalty method, its CAC should be equal to that royalty (para 60.16).

The excess earnings method should be applied to only one intellectual property for a given stream of revenue and income, generally the primary or most important one (IVS 210, para 60.17). Where a product relies on both a patent and a trademark and the revenue associated with them is the same, the excess earnings method values one of them and an alternative method, such as relief-from-royalty, values the other. If the business has several product lines, each using a different technology and generating distinct revenue and profit, the excess earnings method may be applied to each technology.

Key Inputs

- Applicable revenue forecast
- Applicable expenses
- Contributory asset charges ("CAC")
- Expected future tax rates
- Expected life
- Discount rate
- Tax amortisation benefit (asset values, tax rates, tax amortisation rates)

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- Revenue migration/attrition rate
- Expenses saved or to be excluded from the earnings attributable to the asset (i.e. S&M)
- Valuation/selection of the contributory assets and the rates of return used in calculation
- Consistency of expenses and CAC's
- Risk premiums included in the discount rate

b) Relief-from-royalty method

Relief-from-royalty method measures value by estimating future revenue associated with the IP over its useful life and then applying an appropriate royalty rate to the revenue estimate. This method measures the costs that are saved (the royalty payments that are not made) due to the firm's ownership of the assets.

$$\text{Value of IP} = \sum_{t=1}^n \frac{\text{Revenue}_t \times \text{Royalty rate} \times (1 - \text{Tax rate})}{(1 + r)^t} + \text{TAB}$$

Revenue_t	Revenue attributable to the IP in year t
Royalty rate	Arm's-length rate a licensee would pay for the IP
r	Discount rate appropriate to the subject IP
n	Remaining economic life of the IP
TAB	Tax amortisation benefit, where appropriate for the intended use



Under the relief-from-royalty method, the value of an intellectual property is determined by the value of the hypothetical royalty payments that would be saved by owning the asset compared with licensing the intellectual property from a third party. Conceptually, the method may also be viewed as a discounted cash flow method applied to the cash flow that the owner of the intellectual property could receive through licensing the intellectual property to third parties.

The list of steps the valuer would perform in applying a relief from royalty method includes:

- develop projections associated with the intellectual property being valued for the life of the subject intellectual property. The most common metric projected is revenue, as most royalties are paid as a percentage of revenue. However, other metrics such as a per-unit royalty may be appropriate in certain valuations,
- develop a royalty rate for the subject intellectual property. Two methods can be used to derive a hypothetical royalty rate,
 - i. The first is based on market royalty rates for comparable or similar transactions. A prerequisite for this method is the existence of comparable intellectual properties that are licensed at arm's-length on a regular basis,
 - ii. The second method is based on a split of profits that would hypothetically be paid in an arm's-length transaction by a willing licensee to a willing licensor for the rights to use the subject intellectual property,
- apply the selected royalty rate to the projections to calculate the royalty payments avoided by owning the intellectual property,
- estimate any additional expenses for which a licensee of the subject asset would be responsible. This can include upfront payments required by some licensors. A royalty rate should be analysed to determine whether it assumes expenses (such as maintenance, marketing and advertising) are the responsibility of the licensor or the licensee. A royalty rate that is "gross" would consider all responsibilities and expenses associated with ownership of a licensed asset to reside with the licensor, while a royalty that is "net" would consider some or all responsibilities and expenses associated with the licensed asset to reside with the licensee. Depending on whether the royalty is "gross" or "net", the valuation should include or exclude, respectively, a deduction for expenses such as maintenance, marketing or advertising expenses related to the hypothetically licensed asset,
- if the hypothetical costs and royalty payments are tax deductible, it may be appropriate to apply the relevant tax rate to determine the after- tax savings associated with ownership of the intellectual property. However, for certain intended uses (such as transfer pricing), the effects of taxes are generally not considered in the valuation and this step should be skipped,
- determine the appropriate discount rate for the subject intellectual property and present value or capitalise the savings associated with ownership of the intellectual property, and
- if appropriate for the intended use of the valuation, calculate and add the TAB for the subject intellectual property (IVS 210, section 110).

Whether a royalty rate is based on market transactions or a profit split, its selection should consider the characteristics of the subject intellectual property and the environment in which it is used. Factors include but are not limited to the following (IVS 210, para 60.20):

- competitive environment: the size of the market for the intellectual property, the availability of realistic alternatives, the number of competitors, barriers to entry and the presence or absence of switching costs,
- importance of the intellectual property to the owner: whether it is a key factor of differentiation from competitors, the importance it plays in the owner's marketing strategy, its relative importance compared with other tangible and intangible assets, and the amount the owner spends on its creation, upkeep and improvement,
- life cycle: the expected economic life of the intellectual property and any risk of it becoming obsolete.

When selecting a royalty rate, the valuer would also consider the following:

- when entering a licence arrangement, the royalty rate participants would be willing to pay depends on their profit levels and the relative contribution of the licensed intellectual property to that profit. For example, a manufacturer of consumer products would not license a tradename at a royalty rate that leads to the manufacturer realising a lower profit selling branded products compared with selling generic products,
- when considering observed royalty transactions, the specific rights transferred to the licensee and any limitations would be considered. For example, royalty agreements may include significant restrictions on the use of a licensed intellectual property. These restrictions may include but are not limited to specific geographic areas or for certain products. It is needed to understand how payments under the licensing agreement are structured. These characteristics include but are not limited to upfront payments, milestone payments, and options to acquire or to dispose of the licensed property.

Key Inputs

- Financial forecast associated with the intellectual property being valued
- Expected life of the intellectual property
- Notional royalty rate applicable to the intellectual property
- Discount rate

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- Revenues that are not attributable to the intellectual property (i.e. non-brand product revenues)
- Length of economic benefit of the asset
- Appropriateness of observable comparables used to derive a notional royalty rate
- Risk premiums included in the discount rate

c) With-and-without method

The with-and-without method indicates the value of an intellectual property by comparing two scenarios: one in which the subject intellectual property is deployed and one in which the subject intellectual property is not deployed, but where all other factors are kept constant.

The comparison of the two scenarios can be done in two ways:

- calculating the value of the business under each scenario with the difference in the business values being the value of the subject intellectual property, and
- calculating, for each future period, the difference between the profits in the two scenarios. The present value of those amounts is then used to reach the value of the subject intellectual property.

In theory, either method should reach a similar value for the intellectual property, provided the valuer considers not only the impact on the entity's profit, but also additional factors such as differences between the two scenarios in working capital needs and capital expenditures.

The with-and-without method is frequently used in the valuation of non-competition agreements but may be appropriate in the valuation of other intellectual properties in certain circumstances.

The list of steps the valuer would perform in applying the with and without method includes but is not limited to:

- prepare projections of revenue, expenses, capital expenditures and working capital needs for the business assuming the use of the assets of the business including the subject intellectual property. These are the cash flows in the "with" scenario,
- use an appropriate discount rate to present value the future cash flows in the "with" scenario, and/or calculate the value of the business in the "with" scenario,
- prepare projections of revenue, expenses, capital expenditures and working capital needs for the

business assuming the use of the assets of the business except the subject intellectual property. These are the cash flows in the “without” scenario,

- use an appropriate discount rate for the business, estimate the present value of the future cash flows and/or calculate the value of the business in the “without” scenario,
- deduct the present value of cash flows or the value of the business in the “without” scenario from the present value of cash flows or value of the business in the “with” scenario, and
- if appropriate for the intended use of the valuation, calculate and add the TAB for the subject intellectual property (IVS 210, section 110).

As an additional step, the difference between the two scenarios may need to be probability weighted. For example, when valuing a non-competition agreement, the individual or business subject to the agreement may choose not to compete, even if the agreement were not in place.

The differences in value between the two scenarios should be reflected solely in the cash flow projections rather than by using different discount rates in the two scenarios.

B) Market Approach

Under the market approach, the value of an intellectual property is determined by reference to market activity (for example, transactions involving identical or similar assets).

Transactions involving intellectual properties frequently also include other assets, such as a business combination that includes intellectual properties.



Per IVS 103 (para 20.02), the market approach should always take into account trading volume, trading frequency, range of observed prices, and proximity to the valuation date. The market approach should be applied and afforded significant weight under the following circumstances:

- the subject asset has recently been sold in a transaction appropriate for consideration under the basis of value,
- the subject asset or substantially similar assets are actively publicly traded, and/or
- there are frequent and/or recent observable transactions in substantially similar assets.

If an active market exists with many recent arm's length comparable transactions, the market approach is generally the most appropriate. However, it is often difficult to identify truly comparable transactions because IP assets are unique and publicly available market information is usually limited.

Per IVS 103 (para 20.03), although the above circumstances would indicate that the market approach should be applied and afforded significant weight, when using the market approach under the following circumstances, the valuer would consider whether any other approaches can be applied and weighted to corroborate the value indication from the market approach.

- transactions involving the subject asset or substantially similar assets are not recent enough considering the levels of volatility and activity in the market,
- the asset or substantially similar assets are publicly traded, but not actively,
- information on market transactions is available, but the comparable assets have significant differences to the subject asset, potentially requiring subjective adjustments,
- information on recent transactions is not reliable (i.e., hearsay, missing information, synergistic

purchaser, not arm's length, distressed sale, etc).

In addition, per IVS 210 (para 50.03), the market approach would only be applied to value intellectual property if both of the following criteria are met:

- information is available on arm's-length transactions involving identical or similar intellectual properties on or near the valuation date, and
- sufficient information is available to allow the valuer to adjust for all significant differences between the subject intellectual property and those involved in the transactions.

The heterogeneous nature of intellectual properties and the fact that intellectual properties are seldom transacted separately from other assets limit the availability of market evidence of transactions involving identical assets. Where market evidence is available, it usually comprises assets that are similar, but not identical to the subject asset.

Where evidence of either prices or valuation multiples is available, the valuer would adjust these to reflect differences between the subject asset and the assets involved in the transactions. These adjustments reflect the differentiating characteristics of the subject intellectual property and the assets involved in the transactions. Such adjustments may only be determinable at a qualitative, rather than quantitative, level. However, the need for significant qualitative adjustments may indicate that another approach would be more appropriate for the valuation.

The guideline transactions method is generally the only market approach method that can be applied to intellectual properties.

In rare circumstances, a security sufficiently similar to a subject intellectual property may be publicly traded, allowing the use of the guideline public company method. For example, contingent value rights (CVRs) are tied to the performance of a particular product or technology.

Limitations of market approach

- Intellectual properties are highly unique and rarely sold as standalone assets
- Information on sales not publicly available
- Comparability of assets under consideration and other market transactions
- Methodology difficult to apply in practice

C) Cost Approach

Under the cost approach, the value of an intellectual property is determined based on the replacement cost of a similar asset or an asset providing similar service potential or utility.

Per IVS 103 (para 40.02), the cost approach should be applied and afforded significant weight under the following circumstances:

- participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a participant would not be willing to pay a significant premium for the ability to use the subject asset immediately,
- the asset is not directly income-generating and the unique nature of the asset makes using an income approach or market approach unfeasible,
- the basis of value being used is fundamentally based on replacement cost, and/or
- the asset was recently created or issued and sold to market participants, such that there is a high degree of reliability in the assumptions used in the cost approach.

Per IVS 103 (para 40.03), although the circumstances above would indicate that the cost approach should be applied and afforded significant weight, when using the cost approach under the following circumstances, the valuer should consider whether any other approaches can be applied and weighted to corroborate the indication of value from the cost approach:

- participants might consider recreating an asset of similar utility, but there are potential legal or regulatory hurdles or significant time involved in recreating the asset,

- when the cost approach is being used as a reasonableness check to other approaches (for example, using the cost approach to confirm whether a business valued as a going concern might be more valuable on a liquidation basis).

The cost approach should be used when no other approach can be applied satisfactorily. However, the valuer should attempt to identify an alternative method before applying the cost approach in situations where the subject asset does not meet the criteria above.

Two main methods fall under the cost approach: replacement cost and reproduction cost. However, many intellectual properties do not have physical form that can be reproduced and assets such as software, which can be reproduced, generally derive value from their function/utility rather than their exact lines of code. As such, the replacement cost is most commonly applied to the valuation of intellectual properties.

The replacement cost method assumes that a participant would pay no more for the asset than the cost that would be incurred to replace the asset with a substitute of comparable utility or functionality.

The following would be considered when applying the replacement cost method:

- the direct and indirect costs of replacing the utility of the asset, including labour, materials and overheads,
- whether the subject intellectual property is subject to obsolescence. While intellectual properties do not become physically obsolete, they can be subject to economic obsolescence,
- whether it is appropriate to include a profit mark-up on the included costs. The consideration paid for an asset acquired from a third party would presumably reflect their costs associated with creating the asset as well as some form of profit to provide a return on investment. As such, under bases of value that assume a hypothetical transaction, it may be appropriate to include an assumed profit mark-up on costs. As noted in IVS 103 Valuation Approaches, costs developed based on estimates from third parties would be presumed to already reflect a profit mark-up, and
- opportunity costs may also be included. These reflect costs associated with not having the subject intellectual property in place for some time during its creation.

Summary on IP Valuation Approaches

Approach	Method	Commonly applied to	Less suitable when
Market	Guideline transactions	Trademarks, brands and domain names with comparable sales	No active market or comparable IP transactions exist
Income	Relief-from-royalty	Trademarks, brands, patents and software	Future income cannot be forecast reliably
	Excess earnings (MPEEM)	The primary IP of a product line, such as core technology	
	With-and-without	IP that lifts margins or saves costs, such as process technology	
Cost	Replacement cost	Internally used software and early-stage technology	Cost bears little relation to value, such as established trademarks

Chapter 4 – Other Considerations

The following sections address a non-exhaustive list of topics relevant to the valuation of intellectual properties.

- a) Discount rates/Rates of Return for Intellectual properties,
- b) Intellectual property Economic Lives,
- c) Tax amortisation benefit,
- d) Legal perspective
- e) Technology perspective

a) Discount rates/Rates of Return for Intellectual Properties

Selecting discount rates for intellectual properties can be challenging, as observable market evidence of discount rates for intellectual properties is rare. The selection of a discount rate for an intellectual property generally requires significant professional judgement.

In selecting a discount rate for an intellectual property, an assessment of the risks associated with the subject intellectual property and consider observable discount rate benchmarks would be performed.

When assessing the risks associated with an intellectual property, factors should be considered including the following:

- intellectual properties often have higher risk than tangible assets,
- if an intellectual property is highly specialised to its current use, it may have higher risk than assets with multiple potential uses,
- single intellectual properties may have more risk than groups of assets (or businesses),
- intellectual properties used in risky (sometimes referred to as non-routine) functions may have higher risk than intellectual properties used in more low-risk or routine activities. For example, intellectual properties used in research and development activities may be higher risk than those used in delivering existing products or services,
- the life of the asset. Similar to other investments, intellectual properties with longer lives are often considered to have higher risk, all else being equal,
- intellectual properties with more readily estimable cash flow streams, such as royalties under an existing licence agreement, may have lower risk than similar intellectual properties with less estimable cash flows, such as a technology not yet commercialised.

Discount rate benchmarks are rates that are observable based on market evidence or observed transactions. The following are some of the benchmark rates that should be considered:

- risk-free rates with similar maturities to the life of the subject intellectual property,
- cost of debt or borrowing rates with maturities similar to the life of the subject intellectual property,
- cost of equity or equity rates or return for participants for the subject intellectual property, or of the entity owning/using the subject intellectual property,
- weighted-average-cost-of-capital ("WACC") of participants for the subject intellectual property or of the company owning/using the subject intellectual property,
- in contexts involving a recent business acquisition including the subject intellectual property, the internal rate-of-return for the transaction should be considered, and
- in contexts involving a valuation of all assets of a business, a weighted-average-return-on-assets (WARA) analysis should be performed to confirm the reasonableness of the selected discount rates (IVS 210, para 90.04(f)).

b) Intellectual Property Economic Lives

An important consideration in the valuation of an intellectual property, particularly under the income approach, is the economic life of the asset. This may be a finite period limited by legal, technological, functional, or economic factors. Other assets may have an indefinite life. The economic life of an intellectual property in the context of a valuation is a different concept than the remaining useful life for accounting or tax purposes.

Legal, technological, functional and economic factors must be considered individually and together in making an assessment of the economic life.

In estimating the economic life of an intellectual property, factors should also be considered including the pattern of use or its likely replacement. Certain intellectual properties may be abruptly replaced when a new, better or cheaper alternative becomes available, while others may only be replaced slowly over time.

c) Tax Amortisation Benefit

In many tax jurisdictions, intellectual property can be amortised for tax purposes. Depending on the intended use of the valuation and the valuation method used, it may be appropriate to include the value of this tax amortisation benefit (TAB) in the value of the intellectual property (IVS 210, para 110.01).

If the market or cost approach is used, the price paid to create or purchase the intellectual property would already reflect the ability to amortise it. Under the income approach, however, a TAB needs to be explicitly calculated and included, if appropriate (para 110.02). For intended uses such as financial reporting, where the basis of value assumes a hypothetical sale of the intellectual property, a TAB should generally be included when the income approach is used (para 110.03).

In calculating a TAB, the valuer may use either a discount rate appropriate for a business using the intellectual property, such as a WACC, or the discount rate used in valuing the intellectual property itself (para 110.04). Whether a TAB is available, and at what rate, depends on the tax law of the relevant jurisdiction and should be confirmed for each engagement.

In the context of Hong Kong IP financing, the inclusion of a TAB is evaluated on a case-by-case basis depending on the origin of the IP and the assumed premise of value. For self-developed IP, development costs are typically expensed as incurred, leaving a zero-tax basis. A TAB is therefore generally excluded when assessing collateral value for lending, as no remaining tax shield can be utilised by the borrower. The benefit is only realised under an enforcement premise where the asset is sold to a third-party purchaser, who might then claim capital expenditure deductions under Section 16E of the Inland Revenue Ordinance for patents and know-how, or Section 16EA for trademarks and copyrights. Furthermore, if the subject IP qualifies for Hong Kong's concessionary 5% patent box rate, the value of the amortisation shield is significantly reduced, often rendering the TAB mathematically immaterial to the overall valuation.

d) Legal perspective

The value of an IP asset depends on whether its rights exist, how far they extend, whether they can be enforced and whether they are free of encumbrances. The valuer should undertake, or rely on, legal due diligence on the following matters.

Ownership and Chain of Title

Confirm who legally owns the IP. Registered rights, such as patents, trademarks and registered designs, are checked against the official registers. For unregistered rights, such as copyright and trade secrets, the chain of title is traced through assignments. Take particular care with joint ownership, rights arising from government or university funding, and existing security interests.

Scope and Strength of Protection

For patents, review the breadth of the claims, the remaining term and renewal fee status, and the territories covered. Narrow protection in a single jurisdiction is usually worth less. For trademarks, check that the registered classes cover the products that earn the revenue, and review renewals, oppositions and the risk of cancellation for non-use. For trade secrets, confirm that the information is protected in practice and qualifies for protection under the applicable law.

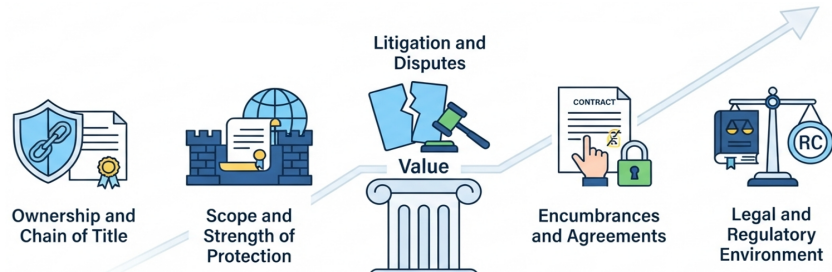
Litigation and Disputes

Identify any pending or threatened litigation, oppositions and invalidation actions. Where a dispute is material, consider a scenario-based or probability-weighted valuation.

Encumbrances and Agreements

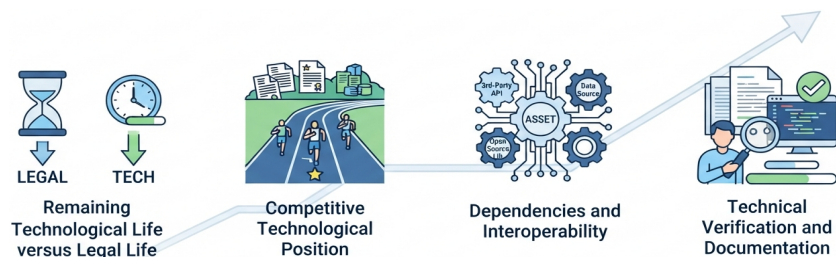
Review licences for exclusivity, royalty rates against market benchmarks, term, sublicensing and termination, and note any co-existence agreements or covenants not to sue. Also consider freedom to operate: a valid right is worth less if using it would infringe the rights of others.

Legal and Regulatory Environment



Consider how effectively the rights can be enforced in the relevant jurisdictions, including the cost and speed of enforcement and the remedies available, and any regulation that may limit how the IP is used, such as data protection rules, compulsory licensing or FRAND obligations on standard-essential patents.

e) Technology perspective



The value of IP is often limited more by the pace of technological change than by the length of its legal protection, so the valuer should assess where the technology stands today and where it is heading.

Remaining Technological Life versus Legal Life

Economic life is the shorter of the legal life and the technological life. In fast-moving fields such as software, artificial intelligence, biotechnology and semiconductors, obsolescence usually decides it: a patent with fifteen years of legal term may be worth little if a better substitute is expected within three. Consider the technology's stage in its lifecycle and the pace of research and development in the sector.

Competitive Technological Position

Compare the asset with the alternatives. Does it give a real advantage in performance, cost or switching costs, and can competitors design around it? Review competitors' patents, publications and products. For a standard-essential patent (SEP), the commitment to license on fair, reasonable and non-discriminatory (FRAND) terms limits the royalty that can be charged, which directly affects the forecast licensing income.

Dependencies and Interoperability

Many IP assets depend on a wider technology stack. Identify any reliance on third-party platforms, open-source components, application programming interfaces and data, including open-source licence obligations such as copyleft. For data-dependent IP, also consider whether the data was lawfully collected, complies with privacy rules and can itself be protected.

Technical Verification and Documentation

Where appropriate, qualified technical experts should confirm that the IP works as claimed and can be scaled and maintained. Poor documentation, reliance on key individuals and unresolved security weaknesses reduce value. For software, also consider code quality, technical debt and whether the architecture can support the growth assumed in the valuation model.

Chapter 5 - Best Practice of IP Valuation

a) Cross Functional Teams

The involvement of legal, technical, and business experts in the valuation process is essential to ensure a comprehensive and multi-dimensional analysis. Each expert contributes distinct expertise, addressing aspects ranging from legal protection to market potential. This collaborative approach facilitates the identification of all value-relevant factors, resulting in a more robust and well-founded valuation.

b) Overall Methodology

Instead of valuing individual patents or trademarks in isolation, it is preferable to assess the entire family of related intellectual property assets. This holistic approach enables the identification of synergies that may enhance overall value, as the combined contribution of interrelated assets often exceeds the sum of their individual components. Evaluating the broader context of the IP portfolio further supports the identification of additional value creation opportunities.

c) Market Analysis

A thorough analysis of the competitive landscape is essential to evaluate IP assets and understand market performance. This process entails identifying competitors, assessing market demand, and analysing technological trends. Such comprehensive market analysis provides critical context, enabling stakeholders to make informed valuation decisions and strategically position their IP.

d) Record Assumptions

Detailed records of all assumptions made during the assessment process can enhance transparency and credibility. These records serve as reference points for stakeholders and can help justify assessment conclusions when they are challenged. Clear records also help to replicate the assessment process in future assessments or audits.

e) Using Multiple Methods

The use of as many valuation methodologies as possible enhances the robustness of the assessment and helps to validate the results. Different approaches (e.g., income-based, market-based, and cost-based approaches) can provide complementary insights into the value of an IPR. By cross-referencing the results of multiple approaches, valuers can arrive at a more reliable valuation that takes into account different perspectives.

f) Stay Updated

Regularly reviewing market trends and legal developments is critical to accurately understanding the value of IP assets. Regulatory changes, competitive dynamics or technological advances may significantly affect the value of IPRs over time. By understanding these factors, stakeholders can adjust their valuation strategies in a timely manner and better manage their IP portfolios.

Additional Information: IP in Financial Reporting (HKFRS / IFRS)

This guideline is written for IP financing. For readers who also prepare or audit financial statements, the points below show where accounting standards treat IP differently. The Hong Kong equivalents (HKFRS 13, HKAS 38, HKFRS 3 and HKAS 36) follow the same requirements.

- **Fair value is not market value:** IFRS 13 (para 9) defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. IP is measured at its highest and best use to market participants, “even if the entity intends a different use” (para 29), which includes IP held only to keep it away from competitors (para 30). Inputs for IP are usually Level 3, “unobservable inputs for the asset or liability” (para 86).
- **Much of a company’s IP is not on its balance sheet:** IAS 38 (para 63) states that “Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.” Research costs are expensed as incurred (para 54). A company’s most valuable IP can therefore carry a nil book value, which is why a lender relies on an independent valuation rather than the accounts.

- **IP is rarely revalued:** the revaluation model requires fair value to be measured by reference to an active market (IAS 38 para 75), and “an active market cannot exist for brands, newspaper mastheads, music and film publishing rights, patents or trademarks, because each such asset is unique” (para 78).
- **Acquisitions:** IFRS 3 (para B31) requires identifiable intangible assets acquired in a business combination to be recognised separately from goodwill, typically valued with the methods in Chapter 3. An assembled workforce is not recognised and is subsumed into goodwill (para B37), although it still attracts a contributory asset charge in the excess earnings method.
- **Impairment:** intangible assets with an indefinite useful life, such as many trademarks, and those not yet available for use are tested for impairment every year (IAS 36 para 10(a)), against a recoverable amount that is the higher of fair value less costs of disposal and value in use (para 18).

Chapter 6 - Worked Example: Valuing a Hong Kong Standard Patent

All names, facts and figures in this chapter are hypothetical and are provided for illustration only. The example follows the relief-from-royalty steps in Chapter 3 from beginning to end, so that each judgement and each calculation can be seen in context.

Background

VisionEdge Limited ("VisionEdge") is a Hong Kong company founded in 2018. It develops automated visual inspection systems for electronics manufacturers. Its customers are contract manufacturers of printed circuit boards and consumer electronics in the Greater Bay Area, who buy the inspection units together with an annual software subscription.

VisionEdge's core technology runs a compact artificial intelligence model directly on the camera unit on the production line, so that defects are detected in milliseconds without sending images to a server. The model can be retrained for a new product from a few hundred sample images, which shortens the time needed to set up a new production line.

- **The subject IP:** a Hong Kong standard patent covering the on-device inspection method and system. It was filed in March 2021 through the original grant patent ("OGP") route and granted in 2024 after substantive examination by the Hong Kong Patents Registry. Subject to renewal fees being paid, protection runs until March 2041. Only this Hong Kong patent is valued. VisionEdge holds no patents elsewhere.
- **Excluded:** the VisionEdge trademark, the customer relationships and the software platform. They contribute to the same revenue and would be valued separately if required.
- **Intended use and users:** VisionEdge is applying for a bank loan secured on the patent. The valuation is for VisionEdge and the lender.
- **Basis of value and valuation date:** Market Value (IVS 102) as at 30 June 2026, in Hong Kong dollars.

Step 1: Choosing the approach

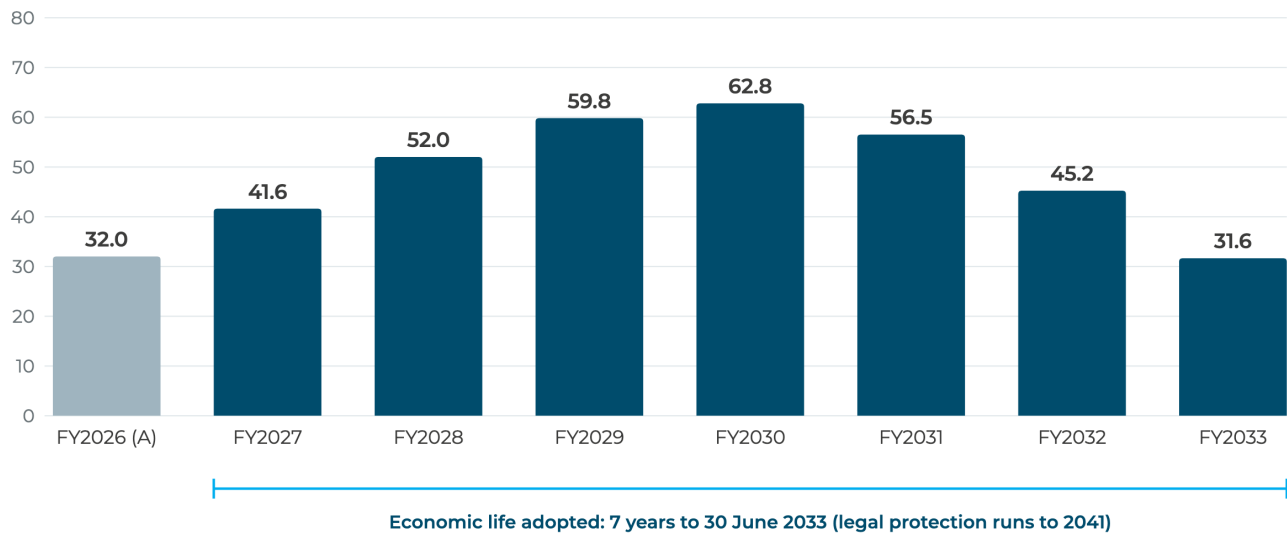
- **Market approach:** not adopted as the primary approach. There are no observable sales of patents comparable enough to the subject patent.
- **Cost approach:** used only as a reasonableness check. The cost to recreate the technology does not reflect the income it now earns.
- **Income approach, relief-from-royalty method:** adopted. Machine vision and inspection technologies are commonly licensed, so royalty rates can be benchmarked. The method values the royalties VisionEdge avoids by owning the patent rather than licensing it (IVS 210 para 60.18). The excess earnings method was not adopted because the trademark, the customer relationships and the software platform also drive the same revenue, and separating their contributions would add judgement without adding reliability.

Step 2: Revenue projection and economic life

In the year to 30 June 2026, products using the patented technology generated revenue of HK\$32.0m. Management's forecast was compared with the order backlog, the sales pipeline and the planned expansion of electronics production in the region. Growth is expected to slow from 30% as the technology reaches more of its market, and revenue to decline from FY2031 as newer inspection models, including general-purpose vision models offered by larger suppliers, take market share.

Although legal protection lasts until 2041, economic life is limited by technological and economic factors, not only legal ones, and those factors must be considered individually and together (IVS 210 paras 100.01 to 100.03). Artificial intelligence moves quickly, so an economic life of 7 years, to 30 June 2033, is adopted. No value is attributed beyond that date.

Revenue from products using the patented technology (HK\$m)



Step 3: Royalty rate

The royalty rate is the rate a willing licensee would pay a willing licensor for the right to use the patent (IVS 210 para 60.19(b)). Two methods are used together:

- **Comparable licences:** a search of licence agreement databases found 14 licences of machine vision, inspection and industrial artificial intelligence patents, with royalty rates of 3.0% to 10.0% of net sales, an interquartile range of 4.5% to 7.5% and a median of 5.5%.
- **Positioning within the range:** the subject patent has broad claims, has passed substantive examination, and is the main feature that sets VisionEdge's product apart from competitors. Against that, it is protected in Hong Kong only and its economic life is short (IVS 210 para 60.20). A rate of 6.0%, slightly above the median, is selected.
- **Profit split cross-check:** the products earn an operating margin of about 25%. A 6.0% royalty would pass about 24% of operating profit to the licensor, leaving the licensee a reasonable return on its manufacturing, sales and other assets (IVS 210 para 60.21(a)).
- **Gross or net:** the comparable licences place the cost of maintaining the patent on the licensor. Renewal fees and patent attorney costs of about HK\$0.1m a year are therefore deducted (IVS 210 para 60.19(d)).

Step 4: Tax and discount rate

Royalties are tax deductible, so the savings are taken after Hong Kong profits tax at 16.5% (IVS 210 para 60.19(e)). Whether the patent box's 5% concessionary rate would apply depends on the facts of the licensee and is not assumed here.

Observable discount rates for a single intangible asset are rare, so the rate is built up from benchmarks and then adjusted for the risks of the patent itself (IVS 210 paras 90.01 to 90.04). The WACC of machine vision and industrial automation companies is the starting point. A premium is added because a single, specialised asset exposed to fast technological change carries more risk than the business as a whole (IVS 210 para 90.03).

Component	Basis	Rate
Risk-free rate	Yield on government bonds with a maturity similar to the economic life	3.5%
Beta × equity risk premium	1.10 × 6.0%, from listed machine-vision and industrial automation peers	6.6%
Size premium	Small company relative to the peer group	3.0%
Company-specific risk	Customer concentration and forecast risk	2.0%
Cost of equity		15.1%
After-tax cost of debt	5.5% × (1 – 16.5%)	4.6%
WACC	80% equity and 20% debt	13.0%
Premium for the single intangible asset	Single, specialised asset exposed to fast technological obsolescence (IVS 210 para 90.03)	+4.0%
Discount rate adopted	WACC plus the premium	17.0%

Formulas used in this example:

- Royalty savings_t = Revenue_t × Royalty rate – Maintenance_t**
What the owner avoids paying a licensor, net of the costs a licensor would bear (IVS 210 para 60.19(c)–(d))
- After-tax savings_t = Royalty savings_t × (1 – Tax rate)**
Royalties would be tax deductible, so the saving is after tax (IVS 210 para 60.19(e))
- Discount factor_t = $\frac{1}{(1 + r)^{t - 0.5}}$**
Mid-year convention: the cash flows arrive evenly through each year
- Value = $\sum_{t=1...n} \text{After-tax savings}_t \times \text{Discount factor}_t$ (+ TAB, if appropriate)**
n = economic life of 7 years; r = 17.0% (IVS 210 para 60.19(f)–(g))
- Cost of equity = R_f + β × ERP + Size premium + Specific risk**
Build-up of the required return for equity investors
- WACC = $\frac{E}{D + E} \times K_e + \frac{D}{D + E} \times K_d \times (1 - \text{Tax rate})$**
A benchmark discount rate, before the premium for a single intangible asset (IVS 210 para 90.04)

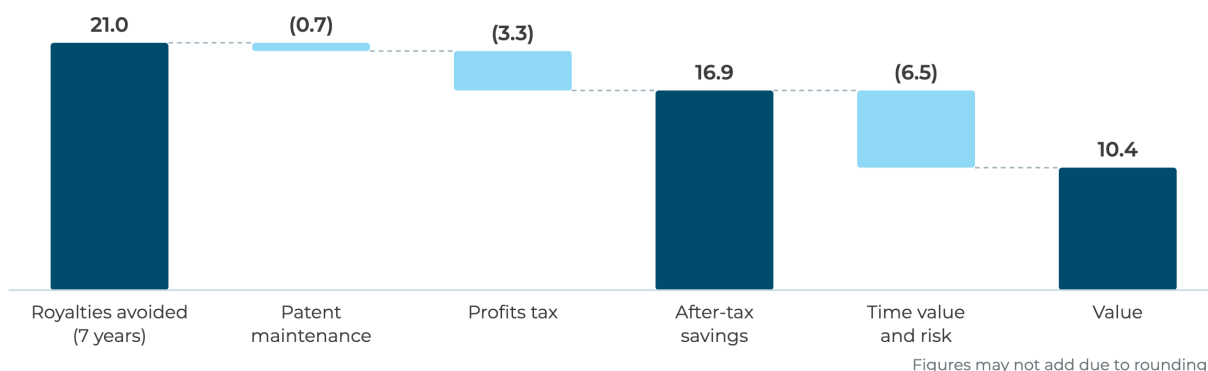
Step 5: Calculation

Each year's royalty savings are calculated, reduced by maintenance costs and tax, and discounted to the valuation date. The mid-year convention assumes that cash flows arrive evenly through each year.

HK\$m	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Revenue growth	+30.0%	+25.0%	+15.0%	+5.0%	-10.0%	-20.0%	-30.0%
Revenue	41.6	52.0	59.8	62.8	56.5	45.2	31.6
Royalty at 6.0%	2.50	3.12	3.59	3.77	3.39	2.71	1.90
Less: patent maintenance	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
Pre-tax royalty savings	2.40	3.02	3.49	3.67	3.29	2.61	1.80
Less: tax at 16.5%	(0.40)	(0.50)	(0.58)	(0.61)	(0.54)	(0.43)	(0.30)
After-tax royalty savings	2.00	2.52	2.91	3.06	2.75	2.18	1.50
Discount period (mid-year)	0.5	1.5	2.5	3.5	4.5	5.5	6.5
Discount factor at 17%	0.9245	0.7902	0.6754	0.5772	0.4934	0.4217	0.3604
Present value	1.85	1.99	1.97	1.77	1.36	0.92	0.54
Value of the patent	10.39 (rounded HK\$10.4m)						

Figures may not add due to rounding. All figures are hypothetical.

From royalties avoided to value (HK\$m, totals over the economic life)



Step 6: Tax amortisation benefit

For a basis of value that assumes a hypothetical sale of the asset, IVS generally expects a tax amortisation benefit (TAB) to be included when the income approach is used, because a buyer may be able to deduct the cost of acquiring the asset (IVS 210 section 110). Whether, and over what period, a buyer of this patent could claim a deduction depends on the tax rules that apply to the buyer and on the facts of the purchase. In this example the value is shown before any TAB. In a real engagement the tax position is confirmed with a tax adviser before a TAB is added.

Step 7: Sensitivity and conclusion

The two inputs that need the most judgement are the royalty rate and the discount rate. The table shows how the value changes as each moves.

Royalty rate ↓ / Discount rate →	15%	16%	17%	18%	19%
5.0%	9.0	8.8	8.6	8.4	8.2
5.5%	10.0	9.7	9.5	9.3	9.1
6.0%	10.9	10.7	10.4	10.1	9.9
6.5%	11.9	11.6	11.3	11.0	10.8
7.0%	12.8	12.5	12.2	11.9	11.6

Value of the patent, HK\$m. Outlined: base case.

Conclusion: the Market Value of the Hong Kong standard patent as at 30 June 2026 is estimated at HK\$10.4m, before any TAB, within a range of HK\$9.3m to HK\$11.6m (royalty rate 5.5% to 6.5%, discount rate 16% to 18%).

Reasonableness check: VisionEdge has spent about HK\$8m on research and development of the technology since 2018. A value somewhat above that cost is consistent with a technology that is already commercialised and earning revenue. Had the income approach produced a value well below the cost, the forecast or the choice of royalty rate would need to be revisited.

What a lender would also consider

- **Realisation:** a patent is hard to sell separately from the business that uses it, the pool of buyers is small and a sale can take time. A lender may therefore ask for a value on a liquidation premise as well (see Chapter 2), or apply its own discount to the Market Value.
- **Title and validity:** that VisionEdge owns the patent outright, including assignments from the inventors, that renewal fees are paid, and that the patent is free of existing charges, disputes and challenges.
- **Territory:** a Hong Kong patent protects the invention in Hong Kong only. Where most sales are made elsewhere, a lender will want to understand how much of the income the patent actually protects.
- **Ongoing obligations:** loan terms usually require the borrower to keep the patent in force and to notify the lender of any infringement or challenge.

Chapter 7 - Worked Example: Valuing a Character IP with the Market Approach

All names, facts, transactions and figures in this chapter are hypothetical and are provided for illustration only. This example shows how the market approach is applied to an established creative IP, and how its result is tested against the income approach.

Background

Dimsum Studio Limited ("Dimsum Studio") is a Hong Kong creative studio. In 2018 it created "Bao", a cartoon character who appears in short animated episodes on social media and streaming platforms and has a large following among young adults in Hong Kong and Southeast Asia.

Dimsum Studio earns most of its income by licensing Bao to other businesses: toy and stationery makers, fashion brands, restaurants and convenience stores for co-branded products and promotions, and organisers of pop-up exhibitions. Licensees pay royalties on their sales, usually with a guaranteed minimum.

HK\$m	Licensing revenue	Licensing profit	Profit margin
FY2024	8.1	3.8	47%
FY2025	8.8	4.2	48%
FY2026	9.6	4.6	48%

- **The subject IP:** the Bao character, comprising the copyright in the character designs and animated episodes and the Hong Kong registered trademarks for the character's name and image, valued together as a buyer would acquire them. Copyright arises automatically and is not registered in Hong Kong, so ownership is evidenced by creation records and by assignments from the illustrators and animators who worked on the character.
- **Track record:** licensing revenue has grown steadily from HK\$8.1m to HK\$9.6m over three years. Licensing profit, the EBITDA of the licensing activity, has stayed at about 48% of revenue. Income comes from more than 40 licensees, although the largest provides 35%.
- **Intended use and basis of value:** a bank loan secured on the character IP. Market Value (IVS 102) as at 31 March 2026, in Hong Kong dollars.

Step 1: Can the market approach be used?

IVS allows the market approach for an intangible asset only if two conditions are met: there is information on arm's-length transactions in identical or similar intangible assets on or near the valuation date, and there is enough information to adjust for all significant differences between those assets and the subject (IVS 210 para 50.03). For most patents, neither condition is met, which is why Chapter 6 uses the income approach.

Character and entertainment IP is different. The rights to characters change hands from time to time, and buyers such as listed toy, media and consumer companies often disclose the price paid together with the licensing revenue or profit of the rights they bought. Where enough such transactions can be found, the guideline transactions method, which is generally the only market approach method that can be applied to intangible assets (IVS 210 para 50.07), gives direct evidence of what buyers pay.

Even so, reliable transaction evidence for IP on its own is scarce. In practice the market approach is used for IP far less often than the income approach, and usually as a cross-check. This example uses it as the primary approach to show how it works, and still tests the result against the income approach.

Step 2: Selecting comparable transactions

Six sales of character IP rights between 2022 and 2025 were identified. They were selected because each was a sale of the IP rights alone, so the price relates directly to the IP; each involved a character licensed across merchandise and media; each was an arm's-length sale between unrelated parties; and each disclosed enough information to calculate price multiples (IVS 103 Appendix, para A10.07).

No.	Sale of IP rights (hypothetical)	Year	Price / licensing revenue	Price / licensing profit
T1	Animated character portfolio rights, Japan, bought by a toy maker	2024	6.0x	11.0x
T2	Webtoon character and merchandising rights, Korea	2023	4.5x	9.0x
T3	Designer-toy character rights, Mainland China	2025	7.5x	13.5x
T4	Animated children's character rights, Taiwan	2022	3.8x	8.0x
T5	Character brand rights licensed across Southeast Asia	2024	4.2x	8.8x
T6	Illustrated character rights with a social-media following, Hong Kong	2025	5.0x	10.0x
Median			4.75x	9.50x

Licensing profit is the EBITDA of the licensing activity.

The units of comparison are the price paid for the IP as a multiple of the IP's annual licensing revenue, and as a multiple of its licensing profit (IVS 103 Appendix, para A10.04). Using two multiples reduces reliance on either one.

Step 3: Adjusting for differences

No comparable is identical to Bao, so the median multiples are adjusted for the significant differences (IVS 103 Appendix, para A10.08, and IVS 210 para 50.05). Each adjustment is a judgement and is documented with its reason:

Difference from the comparables	Subject character	Adjustment
Size	Licensing revenue below most of the comparables	-10%
Growth	About 9% a year, in line with the comparables	0%
Licensee concentration	Largest licensee provides 35% of income	-5%
Geographic reach	Mainly Hong Kong and Southeast Asia, narrower than regional peers	-5%
Track record and content	Eight years in market with a funded animation pipeline	+5%
Net adjustment		-15%

HK\$m	Median multiple	Adjusted multiple	FY2026 metric	Indicated value
Price / licensing revenue	4.75x	4.04x	9.6	38.8
Price / licensing profit	9.50x	8.07x	4.6	37.1
Market approach (equal weight)				38.0

All transactions and figures are hypothetical. Figures may not add due to rounding.

Applying the adjusted multiples to FY2026 licensing revenue of HK\$9.6m and licensing profit (EBITDA) of HK\$4.6m gives HK\$38.8m and HK\$37.1m. The two indications are close, so they are given equal weight, giving HK\$38.0m. In practice, greater weight might be assigned to the profit multiple on a case-by-case basis, as it naturally accounts for varying cost structures.

IVS cautions that where significant qualitative adjustments are needed, another approach may be more appropriate (IVS 210 para 50.05). Here the net adjustment is moderate and each is supported by the facts, but the result is still cross-checked with the income approach.

Step 4: Cross-check with the income approach

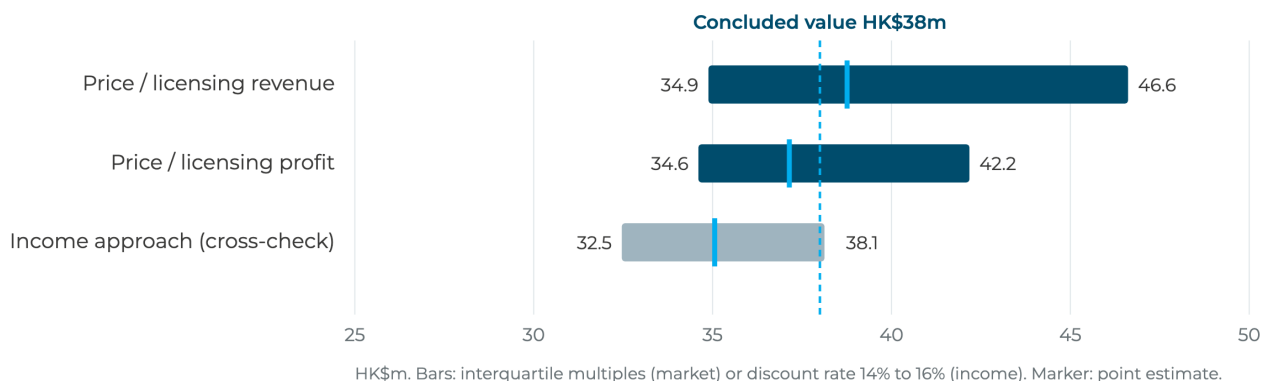
Because Dimsum Studio actually receives royalties, the income approach discounts the net licensing income directly, rather than a hypothetical royalty. Revenue growth is assumed to slow from 8% to 4% over five years and then continue at 3% a year. Tax is deducted at 16.5%, and 5% of revenue is set aside each year for new animated content and trademark protection, which keep the character popular. The discount rate is 15%, reflecting an established IP with a diversified licensee base but exposure to changing tastes.

HK\$m	FY2027	FY2028	FY2029	FY2030	FY2031	Terminal
Licensing revenue	10.4	11.1	11.8	12.3	12.8	
Licensing profit	5.0	5.3	5.6	5.9	6.2	
Net cash flow after tax and 5% content spend	3.63	3.88	4.12	4.32	4.50	
Discount factor at 15% (mid-year)	0.9325	0.8109	0.7051	0.6131	0.5332	
Present value	3.38	3.15	2.90	2.65	2.40	20.57
Income approach value						35.1

Terminal value assumes 3% long-term growth. Figures are hypothetical.

The income approach gives HK\$35.1m, or HK\$32.5m to HK\$38.1m at discount rates of 16% and 14%. About 59% of that value lies beyond the five-year forecast, which is typical for a character with a long life but means the result depends heavily on the long-term assumptions. In practice, the TAB across both methods might be considered on a case-by-case basis.

Step 5: Conclusion



Conclusion: the market approach indicates HK\$38.0m, and the income approach, at HK\$35.1m, is reasonably close and supports it. The Market Value of the Bao character IP as at 31 March 2026 is estimated at HK\$38m, within a range of about HK\$35m to HK\$42m.

What a lender would also consider

- **Popularity risk:** the value of a character depends on continued public interest. A lender will look at trends in social media following, licensee renewals and new content plans.
- **Chain of title:** because copyright is not registered, a lender will want written assignments from every illustrator, animator and contractor who contributed to the character.
- **Licence terms:** existing licences may restrict a sale of the character, or give licensees rights that a buyer would have to honour.

Appendix A - Information Request List

Most of the information needed for an IP valuation already exists in a company's normal records. Items marked Essential are needed to begin. The rest help to narrow the range of value and can follow later. The list is confirmed with the client after an initial call, and not every item applies to every engagement.

No.	Information	Why it is needed	Priority
A. The engagement			
1	Purpose of the valuation, the intended users (such as the lender) and the timetable	Sets the basis of value and the scope of work	Essential
2	Group structure chart showing which entity owns the IP	Confirms who owns the asset being valued	Essential
B. The IP and its legal position			
3	Schedule of the IP: registration numbers, jurisdictions, filing, grant and expiry dates	Defines the subject asset and its legal life	Essential
4	Registration certificates, and for patents the specification, claims and examination record	Shows the scope of protection	Essential
5	Evidence of ownership: assignments from inventors, founders, designers and contractors, and IP clauses in employment agreements	Confirms clean title, especially for unregistered copyright	Essential
6	Records of renewal fees paid	Confirms the IP is still in force	Essential
7	Licence, royalty, co-development and distribution agreements involving the IP	Existing royalties are direct evidence of value	Essential, if any
8	Charges, pledges or other security over the IP	Identifies prior claims on the asset	Essential
9	Disputes, infringement claims, oppositions and any freedom-to-operate opinion	Identifies legal risk	Helpful
C. The IP and its market			
10	Description of the technology or creative work: what it is, how it is used and why customers value it	Explains where the value comes from	Essential
11	Products, services and licences that use the IP, and the revenue from each	Links the IP to income	Essential
12	Competitors, alternative technologies or brands, and any industry or market reports	Supports the royalty rate, the multiples and the economic life	Helpful
13	Development roadmap, content plans and expected replacement technology	Supports the economic life	Helpful
14	Historical cost of developing the IP, such as research, design and production spending	Supports the cost approach cross-check	Helpful
D. Financial information			
15	Audited financial statements for the last 3 years	Historical performance	Essential
16	Latest management accounts	Current trading	Essential
17	Revenue and gross margin by product or licence for the last three years	Isolates income from the IP	Essential
18	Financial forecast for at least five years, with the key assumptions	Basis of the income approach	Essential
19	Major customers or licensees, key contracts and order backlog	Supports the forecast	Helpful
20	Previous valuations, funding rounds, or offers received for the IP or the company	Market evidence of value	Helpful
E. Management			
21	A discussion with management, such as the chief executive, the technical or creative lead and the finance head	Explains the business and tests the forecast	Essential
22	Key inventors, designers and developers, and arrangements to retain them	Know-how often sits with people	Helpful

Appendix B - Questions and Answers

For business owners: is IP financing worth considering?

Q: How is an IP-backed loan different from an ordinary bank loan?

A: The bank still looks at your ability to repay, as it would for any loan. The difference is that your patents, trademarks or copyright are recognised as something of value that supports the credit decision and can be taken as security. For a company whose main assets are its ideas, brands or creative works rather than property or equipment, this can open up financing that a conventional assessment would not.

Q: Do I have to hand over my patent or trademark to the bank?

A: No. You normally keep ownership and continue to use the IP in your business. The bank takes a security interest over it, in the same way that a mortgage works for property. For Hong Kong patents and registered trade marks, that interest can be recorded with the Intellectual Property Department, and it is released when the loan is repaid.

Q: Can I still use, license or develop the IP while the loan is outstanding?

A: Normally you continue to use it as before. Selling the IP, granting an exclusive licence or letting a registration lapse will usually need the bank's consent, because those actions change the value of the security. The loan agreement sets out what needs consent, so it is worth discussing your licensing plans with the bank at the start.

Q: What happens to the IP if the loan cannot be repaid?

A: As with any secured loan, the bank may enforce its security under the loan agreement, which can include selling the IP. This is why lenders are interested not only in what the IP is worth in your business, but also in what it could realise if it had to be sold.

Q: Is it much more work than applying for an ordinary loan?

A: Less than many companies expect. Most of the information in Appendix A already exists in your normal records: registration certificates, financial statements and a business plan. The additional steps are an independent valuation and a legal check that you own the IP and that it is in force. A short call with the valuer at the start usually shows what is actually needed.

Q: Will a valuation expose our confidential know-how?

A: It should not. The valuer needs to understand what the IP does and how it earns money, not the technical secrets behind it. Valuers work under confidentiality obligations, and a separate non-disclosure agreement can be put in place. The report describes the IP at the level needed to support the value.

Q: What makes IP more attractive to a lender?

A: Registration and renewal fees paid up to date; a clean chain of ownership, including assignments from founders, employees and contractors; a clear link between the IP and revenue; licensing income, where there is any; and no disputes or challenges. Tidying up these points before approaching a bank saves time later.

Q: Our IP is registered only in Hong Kong. Does that matter?

A: A Hong Kong registration protects the IP in Hong Kong. If most of your sales are elsewhere, the bank and the valuer will consider how much of your income the registration actually protects. Chapter 6 shows how this is reflected in a valuation.

Q: Can a company that is not yet profitable use its IP to raise finance?

A: It is possible, but harder. Without a track record, the value of the IP is more uncertain and the bank still needs to see how the loan will be repaid. A valuation can still help by showing what the IP is worth and what drives that value.

Q: Is there support towards the cost of a valuation?

A: The Government has announced a two-year Pilot Patent Valuation Support Scheme, expected to launch in the third quarter of 2026, with a matching grant of up to HK\$80,000 for eligible SMEs. The Intellectual

Property Department publishes the details and eligibility criteria.

For banks and credit teams

Q: Why obtain a valuation of the IP if the credit decision rests on cash flow?

A: Cash flow shows the ability to repay. A valuation shows what the security is worth and what drives that worth, which helps the bank size the facility, set covenants and understand what it could recover. The Sandbox's Operating Principles expect an independent valuation as part of the process.

Q: Which basis of value should the bank ask for?

A: It depends on how the bank will use the valuation. Market value is the usual starting point. Where recovery on enforcement matters, a value on a liquidation premise may also be requested. The basis should be agreed in the valuer's scope of work before the valuation starts, because different bases can give materially different figures.

Q: Why is the valuation sometimes given as a range?

A: The value of IP depends on inputs that require judgement, such as the royalty rate, the discount rate and the economic life. A range, and the sensitivity table behind it, shows how much the conclusion depends on those judgements. A narrow range is not necessarily a better valuation: it may simply hide the uncertainty.

Q: How can the bank judge whether a valuation is reliable?

A: Look for a valuer who is independent and a member of a recognised professional body; a clear scope, basis of value and IVS compliance statement; sources for the significant inputs; a second approach used as a cross-check; and a forecast that reconciles with the borrower's historical results. Chapter 2 summarises what an IVS report should contain.

Q: How is a security interest over IP recorded in Hong Kong?

A: Transactions affecting a Hong Kong patent, including a mortgage or other security, can be recorded with the Patents Registry. A security interest over a registered trade mark can be registered with the Trade Marks Registry. There is no copyright registry in Hong Kong, so for copyright the bank relies on the security documents and on evidence of the borrower's title. Legal advice should be taken on the form of security.

Q: Why does the IP sometimes have little or no value in the borrower's accounts?

A: Accounting standards restrict what can be recognised. For example, internally generated brands and customer lists are not recognised as intangible assets, and research costs are expensed. A company's most valuable IP can therefore carry a nil book value, which is why an independent valuation is needed. See the additional information on IP in financial reporting in Chapter 5.

Q: What should be monitored while the loan is outstanding?

A: That renewal fees are paid, that there are no new challenges or infringement disputes, how licences change, and whether revenue from the IP stays in line with the forecast. Many banks also ask for a valuation update periodically, or when a significant event occurs.

Q: What if the patent is challenged, or approaches the end of its life?

A: A successful challenge can remove the value of a patent, which is why title and validity checks come first and loan terms usually require the borrower to report any challenge. Expiry is already built into the valuation, because no value is attributed beyond the economic life, which is often shorter than the legal life.

About IP valuation

Q: What is the difference between intellectual property and an intangible asset?

A: Intellectual property is a legal concept: rights that the law protects, such as patents, trade marks, copyright and registered designs. Intangible asset is the wider valuation and accounting concept, which also covers items such as customer relationships and contracts. Chapter 1 sets out how accounting standards define an intangible asset.

Q: Which approach is used to value IP?

A: There are three: the market, income and cost approaches. For IP that already earns income, the income approach is most common, usually through the relief-from-royalty method or the excess earnings method. The market approach needs comparable transactions, which exist for some IP such as characters and brands but rarely for patents. The cost approach is more relevant for early-stage technology or software used internally.

Q: What is the relief-from-royalty method?

A: It values IP by the royalties the owner avoids paying because it owns the IP instead of licensing it. Revenue is projected, a market royalty rate is applied, costs and tax are deducted, and the savings are discounted to the valuation date. Chapter 6 works through a full example.

Q: When can the market approach be used for IP?

A: Only where there are arm's-length transactions in similar IP close to the valuation date, with enough information to adjust for the differences. The multiples should come from sales of comparable IP rights, so that the price relates to the IP itself. Chapter 7 shows how this works for a character IP, and why the result is cross-checked with the income approach.

Q: If a patent lasts 20 years, is it valued over 20 years?

A: Not necessarily. The legal life is the maximum. Economic life is often shorter, because technology becomes obsolete or the market moves on. IVS requires legal, technological, functional and economic factors to be considered together.

Q: Why is the discount rate for IP higher than the company's cost of capital?

A: A single intangible asset is usually riskier than the business as a whole. It is specialised, may become obsolete and cannot easily be sold on its own. The company's weighted average cost of capital is therefore a starting point, and a premium is added for the IP's own risks.

Q: Can IP that is not registered, such as copyright or a trade secret, be valued?

A: Yes, if it can be identified, it is protected in practice and it generates an economic benefit. Evidence of ownership matters more for unregistered IP, because there is no public register to rely on.

About the International Valuation Standards (IVS)

Q: What is IVS, and who issues it?

A: The International Valuation Standards are issued by the International Valuation Standards Council (IVSC), an independent, not-for-profit standard setter based in London. IVS are referenced and used by valuers in more than 100 countries.

Q: Does IVS have a standard for intellectual property?

A: No. IVS contains no standard dedicated to intellectual property. IP is valued under IVS 210 Intangible Assets, together with the General Standards IVS 100 to IVS 106, which apply to every valuation.

Q: Which edition does this guideline follow, and where can IVS be obtained?

A: This guideline follows IVS effective 31 January 2025. A PDF copy of the current edition can be obtained free of charge by registering on the IVSC website, www.ivsc.org.

Q: What does a report need to contain to comply with IVS?

A: IVS 106 sets out the minimum contents. Chapter 2 summarises them: the engagement, the key parameters, how the value was reached, and the conclusion, including a statement of compliance with IVS.

About information and the process

Q: What information is needed?

A: Appendix A lists it. In most cases the essential items are the IP registration documents and proof of ownership, a description of the IP, three years of financial statements, revenue by product or licence, and a

financial forecast.

Q: Our company does not have a detailed forecast. Can the valuation still be done?

A: Yes. A forecast can be developed with management during the engagement, starting from historical results, the order book and the market outlook. The valuer tests the assumptions rather than accepting them as given.

Q: How long does a valuation take?

A: It depends mainly on how quickly the information in Appendix A is available and how complex the IP is. A call with management and the essential items are enough to begin.

Q: Is the valuation the amount the bank will lend?

A: No. The valuation is one input to the lender's decision. The lender applies its own lending ratio and also considers the borrower's cash flow, other security and the legal position of the IP.

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