MOORE TRANSACTION SERVICES

Intellectual Property Valuation:

Questions and Answers

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.

These questions and answers are Appendix B of Moore Hong Kong's Guideline on Intellectual Property Valuation, published separately so that they can be read on their own. They answer what business owners, bankers and advisers most often ask about valuing intellectual property for financing.

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 our Information Request List 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 of the full guideline 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 of the full guideline 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 of the full guideline.

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 of the full guideline 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 of the full guideline 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 of the full guideline 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 of the full guideline 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: Our Information Request List sets it out. 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 our Information Request List 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.

Acknowledgement and Disclaimer

This guideline is not a reproduction of, a summary of, or a substitute for the International Valuation Standards, and Moore Hong Kong has no intention of reproducing them. It discusses only how intellectual property and other intangible assets are valued, and it does not cover the full scope or all of the requirements of IVS. Anyone performing a valuation under IVS, or stating compliance with IVS, should obtain and refer to the complete standards published by the IVSC.

This guideline has not been reviewed or endorsed by the IVSC. Any interpretation of IVS it contains, and all guidance that goes beyond IVS, is Moore Hong Kong's own. It is provided for general information only and does not constitute professional advice on any specific valuation.

The recommendations and worked examples in this guideline illustrate recommended practice and are general guidance, not an authoritative statement of what every valuation requires. Many matters depend on the facts and circumstances of the individual asset and engagement and must be considered case by case.

Moore Transaction Services

Moore Hong Kong has been actively providing transaction and valuation advisory services to its clients. We are eager to share our insights on the subject matters in this regard, with our team of valuation specialists and transaction advisory experts, who are holders of professional qualifications including Chartered Financial Analyst (CFA), Financial Risk Manager (FRM), Certified Public Accountant (CPA), member of the Royal Institution of Chartered Surveyors (MRICS), Chartered Alternative Investment Analyst (CAIA) and the Certified ESG Analyst (CESGA) designation granted by the European Federation of Financial Analysts Societies (EFFAS).

Moore Hong Kong is committed to providing high-quality valuation services that meet the ethical standards of the profession and protect the interests of all stakeholders. We also see it as our role to support gatekeeping in Hong Kong's valuation market. As part of that commitment, we regularly publish our Control Premium & Discount for Lack of Marketability (CP & DLOM) Study, based on data extracted from HKEX filings. For more details, and for our other articles on valuation, please visit our website at www.moore.hk.

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