

Land Asset Appraisal in System Reform of State-owned Enterprises (Take Shenzhen as an Example)

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Key words: State-owned enterprise, system reform, land asset, appraisal, disposal

SUMMARY

System reform of state-owned enterprise is the inevitable trend of historical development. Its purpose is to reconstruct state-owned enterprises into enterprises of independent operation, full responsibility for losses and profits, self-development and self-restraint and meeting the requirement of the modern enterprise system. System reform of enterprises must be implemented through the legal procedure of asset appraisal. Through disposal and appraisal, solve the longstanding problem of lack of clarification for ownership and value of land assets with state-owned enterprises to prevent loss of state assets and protect the interests of the country, enterprises and employees. This article mainly elaborates on the historical background and meaning of system reform of state-owned enterprises, related legal bases for system reform of state-owned enterprises, form of disposal of land assets and issues to be noticed in land asset appraisal.

SUMMARY

国有企业改制是历史发展的必然，其目的是将国有企业改造成为自主经营、自负盈亏、自我发展、自我约束、具备现代企业制度要求的企业。企业改制必须通过资产评估的法定手续。通过处置、评估解决国有企业长期存在的土地资产产权不清、价值不明的问题，防止国有资产流失，保障国家、企业、职工的利益。本文主要阐述了国有企业改制的历史背景及意义、国有企业改制有关法律依据、土地资产处置方式、土地资产评估应注意的问题等内容。

Land Asset Appraisal in System Reform of State-owned Enterprises (Take Shenzhen as an Example)

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1. HISTORICAL BACKGROUND AND MEANING OF SYSTEM REFORM OF STATE-OWNED ENTERPRISES

System reform of state-owned enterprises is a process of change whereby to optimize and reorganize the assets, stock ownership structure and basic system of state-owned enterprises through certain ways.

System reform of state-owned enterprises is the inevitable trend of historical development. The 15th National Congress of the Communist Party of China proposed to reform state-owned enterprises into enterprises of independent operation, full responsibility for losses and profits, self-development and self-restraint and meeting the requirement of the modern enterprise system to meet the goal of becoming legal entities and subjects of market competition of “clear ownership, defined power and responsibilities, separation of enterprise management from government administration and scientific management” and adapted to the requirement of market economy.

Through enterprise system reform and asset restructuring, realize change of government functions, that is, to get the government out of the role as the operator of state-owned enterprise as well as the executor of public power and return the control and management right of enterprises to other subjects; through enterprise system reform, realize the goal of reform of establishing a sound socialist market economic system. Enterprises must be market-oriented. Through the market mechanism, the long dormant motivation, initiative and creativity of state-owned enterprises can be activated. Enterprise of autonomous power will be conducive to promoting improvement and development of the market economic system; through enterprise system reform, the modern enterprise management system can be established to afford enterprises the market consciousness, competition consciousness, adequate innovative ability and ability to respond to needs and conditions of the market to keep constantly the vigor and vitality of enterprises.

System reform and restructuring of enterprises will entail change of state-owned property rights. Change of property rights must be implemented through the legal procedure of asset appraisal. Through appraisal, solve the longstanding problem of lack of clarification for ownership and value of land assets with state-owned enterprises to prevent loss of state assets and protect the interests of the country, enterprises and employees. Land assets (real property owned by enterprises) account for a big proportion of the total assets of enterprises. Accurate appraisal of the land assets of enterprises subject to system reform will help the development of enterprises in the long run.

2. RELATED LEGAL BASES FOR SYSTEM REFORM OF STATE-OWNED ENTERPRISES

2.1 Related Laws and Regulations of the Country

2.1.1 Main Policy Bases

A. Main Policy Bases

- On November 14, 1993, the Decision of CPC Central Committee on Several Issues Concerning Establishing the Socialist Market Economic System of the Third Plenary Session of the Fourteenth Congress of the Chinese Communist Party pointed out that the direction of system reform of state-owned enterprises was to establish the modern enterprise system of “clear ownership, defined responsibilities, separation of enterprise management from government administration and scientific management”.
- On September 22, 1999, Decision on Several Serious Issues Concerning Reform and Development of State-owned Enterprises of the Forth Plenary Session of the Fifteenth Congress of the Chinese Communist Party reiterated the urgency of the task of carrying forward the system reform and development of state-owned enterprises and the need to push forward strategic restructuring of state-owned enterprises, establish and improve the modern enterprise system, continue the separation of enterprise management from government administration, explore effective forms for state assets management and implement standard corporate system reform for medium and large-sized enterprises, etc.
- On October 2003, the Decision of the CPC Central Committee on Several Issues Concerning Improving the Socialist Market Economic System of the Third Plenary Session of the Sixteenth Congress of the Chinese Communist Party proposed to establish a modern property rights system of clear ownership, defined power and responsibilities, vigorous protection and smooth circulation.

B. Related Laws and Regulations and Administrative Documents

1. Land Administration Law

The revised Land Administration Law was passed and implemented on August 28, 2004. The Land Administration Law makes comprehensive and systematic stipulation for definition of the ownership and use right of China’s land, general planning for land utilization, measures for protection of arable land, related regulations on land for construction, supervision and inspection and related legal responsibilities to provide solid powerful legal bases for disposal and appraisal of land assets during restructuring of state-owned enterprises.

2. Temporary Regulation for Managing Allocated Land Use Rights during Reform of State-owned Enterprises

The Regulation gives definite regulation for the method and procedure for disposing allocated land use rights in reform of state-owned enterprises. For example, in the case of reconstructing or restructuring state-owned enterprises into limited liability companies and

stock limited companies, building enterprise groups, restructuring state-owned enterprises into joint-stock enterprises, operation leasing of state-owned enterprises and non-state-owned enterprises annexing state-owned enterprises, the method of transferring or leasing shall be adopted; in the case of state-owned enterprises going bankrupt or on sale, the original allocated land use right of the enterprises shall be disposed through transfer; in the case of land use by urban infrastructure, public utilities and projects placed on the priority list by the state, such as energy, traffic and irrigation works, state-owned enterprises annexing state-owned enterprises and the enterprises after annex or merger being state-owned industrial enterprises, the state-owned enterprises annexed or either side of the merger being enterprises on the brink of bankruptcy and reconstructing or restructuring state-owned enterprises into state-funded corporations, the allocated land use right can be disposed by retaining the allocated land.

3. Several Opinions of the Ministry of Land and Resources on Strengthening Management of Land Assets and Promoting Reform and Development of State-owned Enterprises

The Opinion was promulgated on November 25, 1999. It mainly pointed that during system reform of enterprises, we shall classify and dispose land assets properly and improve the land assets allocation system; specify land rights and interests, straighten out property relationships and strengthen supervision; bring into play the benefits of land assets and optimize the asset structure; specify land supply policies, improve the land market and do well the land assets management work.

4. Opinion on Normalizing the System Reform Work of State-owned Enterprises

The Opinion implements strict normalization for specific work of system reform of state-owned enterprises. For example, it makes specific provisions for the approval system of state-owned enterprises, asset and capital verification of enterprises, financial auditing, asset appraisal, transaction management, price management, transfer price management, legal protection of creditors' interests, preserving the legal rights and interests of employees and management buyout.

5. Implementation Measures for Separation of Core Business and Non-core Business, System Reform of Non-core Business and Reposition and Placement of Redundant Personnel of Medium and Large-sized State-owned Enterprises (GJMQG [2002] No.859)

The Implementation Measures was promulgated jointly by the State Economic and Trade Commission, Ministry of Finance, Ministry of Labor and Social Security, Ministry of Land and Resources, People's Bank of China, State Administration of Taxation, State Administration of Industry and Commerce and All China Federation of Trade Unions. It provides specific implementation measures for separation of core business and non-core business of medium and large-sized state-owned enterprises, conditions for enterprises subject to system reform to enjoy support policies, reporting and approval procedure of enterprises undergoing system reform and reposition of redundant personnel and the requirement for system reform and reposition and placement of redundant personnel and specifies that layoff of more than 200 persons or involving more than 20% of the total number of active employees by large-sized state-owned enterprises shall be reported to the local government in advance.

6. Temporary Measures for Management of Transfer of State-owned Property Rights of Enterprises

The Measures was promulgated by the State-owned Assets Supervision and Administration Commission of the State Council and implemented on February 1, 2004. It makes specific provisions for supervision and management, procedure and approval procedure of transfer of state-owned property rights of enterprises and related legal responsibilities.

7. Notice for Opinion on Approval of Disposal of Land Assets in System Reform of Enterprises (trial) and Recording Measures for Land Appraisal Reports (trial)

The Notice was promulgated by the office of the Ministry of Land and Resources on April 29, 2004. It makes specific provisions for the approval rights, scope and procedure of disposal and approval requirement of land assets in system reform of enterprises and provides normative documents for the scope, requirement, condition and procedure of recording of appraisal reports.

2.2 Related Rules and Regulations of Shenzhen

1. Temporary Measures for Approval Management of Change of State-owned Property Rights of City-owned Enterprises of Shenzhen

The Measures makes specific provisions for the approval rights of transfer of state-owned property rights and proposes that agencies of relevant qualification shall be commissioned for transfer of state-owned property rights and system reform of enterprises and stipulates that transfer of property rights between city-owned state-owned exclusively-invested enterprises, enterprises of a book value of net assets less than one million Yuan and transfer of property rights accounting for less than 5% of the total property rights and of a book value of net assets less than three million Yuan can be exempted from asset appraisal.

2. Several Opinions on Land Asset Management in System Reform of State-owned Enterprises of Our City

The Opinions stresses the need for land asset appraisal during system reform of state-owned enterprises to solve the longstanding problem of lack of clarification for ownership and value of land assets with state-owned enterprises through appraisal.

3. Measures for Handling Related Real Estate Issues during Adjustment and Restructuring of City-owned State-owned Enterprises of Shenzhen

The Measures makes specific provisions for way of disposing different real estate, including land allocated through administrative means and non-market commodity houses.

4. Notice of Several Opinions on Land Asset Management in System Reform of State-owned Enterprises of Our City

The Notice specifies the scope, principle and manner of disposal of land assets relating to system reform of state-owned enterprises and requires that appraisal reports of land assets involving transfer of property rights must be submitted to the municipal land administration

authority for recording. Opinions on recording are to be made by the municipal land administration authority.

5. Work Procedure for Approving System Reform of City-owned State-owned Enterprises of Shenzhen makes specific provisions for the time limit and work extent of document making and materials required for making documents for application and approval of project initialization of system reform of state-owned enterprises, disposal and affirmation of assets, recording of appraisal reports, implementation of procedures of property rights transaction and approval of the general plan for system reform

3. ISSUES TO BE NOTICED IN REPORTING PLANS FOR DISPOSING LAND ASSETS

Land assets of enterprises undergoing system reform must be disposed and affirmed of ownership through the land administration authority, which issues the plan for disposing land assets. Through disposal and affirmation of ownership, solve the longstanding problem of lack of clarification of ownership of land assets with state-owned enterprises.

3.1 Scope of Disposal of Land Assets

The following land assets shall be included into the scope of disposal:

1. Land assets listed in financial accounts of the enterprise undergoing system reform
2. All the land assets of the enterprise not disposed before the benchmark day of appraisal:
 - (1) All the land assets of the enterprise undergoing system reform and its affiliates
 - (2) All the land assets with and without property ownership certificate and clear ownership
3. Land assets within Shenzhen and belonging to enterprises undergoing system reform

3.2 Methods of Disposal of Land Assets

According to the feature of integration of building and land and characteristics of land administration policies of Shenzhen, The methods for disposing land assets include the following:

- Make up the land price to convert to commodities in character, commonly applicable to ordinary real estate;
- Invest by means of land use rights (conversion into shares). In other words, the state invests in the enterprise undergoing system reform by means of the land use right of certain number of years. This method is subject to approval of the municipal government;
- Leasing of state-owned land. Enter into a land leasing contract of certain number of years and pay the rent as agreed;
- Maintain the original land use character and transfer the real estate to the new company without changing the original land use character, including transferring real estate for self-use through agreement and real estate allocated through administrative means, but the transfer shall meet and maintain the scope of the original land use character, such as the catalogue of allocated land, and pay the land use fee or annual land rent each year as required;

- Impose time limit for development. Impose time limit for development of idle transferred land. Of which, land to be converted to commodities in character needs to go through the procedure of making up land prices;
- Devolve land assets to the assets operation company or superior property rights holder and transfer the ownership of real estate not transferred to the enterprise after system reform to the assets operation company or superior property right holder;
- Reclaim land. The government reclaims the idle land allocated through administrative means, some idle transferred land, land already constructed but having to be reclaimed due to planning needs and other land falling to the scope of reclaiming.
- Depending on the actual situation, disposal can be implemented through combination of the above methods.

3.3 Functions of Disposal of Land Assets

1. Straighten out property relationships

Due to historical reasons, many state-owned enterprises have the problem of unclear or disputable ownership of land property rights and ambiguously recorded or lost original data. For disposal of land assets, property relationships must be straightened out first. By means such as inquiring archives, resigning the land transfer contract and resurvey, specify the ownership of land assets and condition of physical assets.

2. Affirm Ownership

Another function of the land asset disposal plan is to specify the ownership of land assets to provide guarantee for the new company after system reform during transfer of land assets. According to the regulation of the state, land of unclear or disputable ownership may not participate in system reform and appraisal. During the process of straightening out property relationships, land of unclear, imperfect and disputable ownership shall be stripped off. Disputes surrounding land ownership of state-owned enterprises shall be solved and property relationships shall be specified in a timely manner.

3. Provide Legal Bases for Appraisal of Land Assets

The land asset disposal plan is an important basis for appraisal. According to the regulation of the state, land assets with indefinable ownership cannot be appraised and land assets included into the disposal plan must be of clear ownership. Therefore, the disposal plan of land assets provides for us the basis for affirming the ownership of land and condition of assets during appraisal.

4. ISSUES TO BE NOTICED DURING APPRAISAL OF LAND ASSETS

4.1 Proper Selection of Appraisal Methods

During system reform of enterprises, some land assets will become net assets of the enterprise, so there are always some issues to be noticed when using each appraisal method to carry out appraisal of land assets.

- For the price of all real estate, appraisal shall be conducted by the standard of open market value;
- In the case of commodities houses developed and purchased by enterprises, for mature areas where a lot of real estate transaction cases can be collected, the market comparison approach shall be used.
- For real estate of potential or real income, the income approach shall be adopted for appraisal.
- For properties of inactive market transaction or no transaction cases and of remote supporting facilities or geographical locations, the cost approach shall be adopted for appraisal.
- For land parcels, usually the coefficient correction method of benchmark land price and method of residues are adopted for appraisal, and then the weighted arithmetic mean method is adopted for determining the value of land parcels. However, in recent two years, the land market of Shenzhen has seen active transaction, so for appraisal of land parcels meeting the condition, the market comparison approach shall be considered first.

Three appraisal methods commonly used are the market comparison approach, income approach and cost approach. For the same real estate, in theory, the earnings price > adjusted sales price > cost price, but in actuality, it is not so. Especially in recent two years, real estate prices of Shenzhen have been in a period of rapid increase, leading to absolute departure between market prices and rent levels, so the appraisal price obtained using the market comparison approach will be higher than that obtained using the income approach. Therefore, for real estate for earning incomes, it is not necessarily limited to the income approach. In areas of active market transactions, the market comparison approach shall be considered first. Proper appraisal methods shall be selected according to the specific situation of the real estate, so that real estate values can be determined more objectively.

4.2 Issues to be Noticed for Field Survey and Market Investigation

Under normal circumstances, system reform of enterprises will involve many land assets, in some cases, there are more than one hundred parcels of land. Therefore, before field survey, adequate preparatory work shall be made.

Do well the survey planning, decide and train survey personnel, learn the scope of survey, basic requirement of field survey and methods and skills for filling out forms of field survey and decide the survey route. During the survey, take photographs of the real estate and make records for the percentage of newness, use condition, decoration, structure, annexes and supporting facilities of the real estate, summarize the survey work each day, make sketch map indicating the property location and organize photos, etc. Make survey at the same time with the organ appraising the entire assets as possible. The organ appraising the entire assets shall make records for items beyond the scope of real estate appraisal.

Market investigation should be comprehensive and targeted. Carry out investigation of related policies and laws and market situation using all kinds of channels and proper methods. Learn the real estate market situation, rent level and condition of supply and demand. Classify and

organize all kinds of materials investigated, remove uncommon cases and modify adoptable cases.

4.3 Issues to be noticed for appraisal of commercial real estate

(1) Determination of rent levels

During the appraisal for system reform of many state-owned enterprises of Shenzhen, we found that the rent levels of most commercial real estate leased by enterprises were lower than the market level, which is mainly caused by the management method and operation mechanism of state-owned enterprises. For example, lower the rent on purpose as a favor for people having "guanxi" and enterprises lack market competitiveness. Therefore, when appraising commercial real estate, we should see the rent in the contract entered between both sides from an objective perspective and decide the rent level correctly according to the condition of the market.

Besides that, we shall decide the rent of commercial real estate in view of different floors and shall not appraise the value of an entire commercial property using an average rent, for the rent levels of different floors are different, so the income values of different floors are different. Therefore, we shall carry out appraisal in view of different floors and obtain the appraisal price of the entire commercial property by totaling, so that the value of the property can be more objectively reflected.

(2) Determination of the capitalization rate.

Capitalization rate has been the most debated issue within the industry. It is also the index having the maximum effect on property values. Capitalization rate is usually derived from the interest rate of one-year deposit plus the risk-adjusted value, but as to how much is the risk-adjusted value and how it is determined, it has been always hard to decide. In most cases, empirical values are adopted. In Shenzhen, a capitalization rate recognized by all people has been formed within the industry, which is typically around 7%. However, capitalization rates for different floors, different locations and different market situations are different. Usually, the letting rate of the first floor shall be higher than that of the second floor. In other words, the operating risk of shops at the first floor will be lower than that of shops at the second floor, so the capitalization rate of the first floor will be lower than that of the second floor. Moreover, capitalization rates within and outside the leasing period are also different, for the market risks carried by the property are different. Therefore, the capitalization rate shall be properly decided based on the specific condition of properties.

4.4 Issues to be noticed for appraisal of supporting buildings at residential areas (clubhouses, garages, kindergarten, refuse room, security room, etc).

For appraisal of supporting buildings at residential areas, usually the following situations will appear:

4.4.1 Clubhouses for Business Purposes or Self-use

Clubhouses at residential areas are divided into two types. One is the clubhouses for business purposes and is figured in the plot ratio and floor area; another is the clubhouses for self-use and is not figured in the plot ratio and floor area. Typically, for the first type, appraisal shall be carried out using the income approach based on the business income and commercial character of the clubhouse; for the second type, cost value of the clubhouse is usually appraised using the cost approach. However, in practice, due reasons such as the high operation cost of clubhouses and failure of developers to meet the design standard in construction of clubhouses, even the clubhouses are specified as the supporting properties for self-use at the residential area in the land transfer contract, in most cases, clubhouses are used by developers for business purposes and not delivered to property owners. Therefore, for appraisal for system reform of enterprises, we shall appraise the value of clubhouses according to the actual situation.

4.4.2 Kindergartens, Schools

Planning of residential areas of large scales will include supporting kindergartens and schools, which are usually provided in the land transfer contract, in other words, handed over to relevant functional departments of the government at the cost price, price making meager profits or for free after being finished. If the developer makes the handover in time as required, we shall carry out appraisal based on the price stipulated in the contract. However, in practice, it is not so. After completing construction, developers usually will lease out the kindergartens and schools to generate income. Therefore, in the case leasing, we shall report the income made out of the kindergarten and school within the term of the lease contract to the appraisal organ of the entire assets for accounting calculation and the appraisal organ of land assets shall conduct the appraisal in the manner stipulated by the contract.

4.4.3 Parking Spaces at the Residential Area

Parking spaces of residential areas are usually not figured in the plot ratio and floor area and their values are already accounted for in the sellable floor area. Parking spaces of residential areas belong to all the property owners. However, in actual work, we find that many enterprises subject system reform hold the parking spaces of residential areas developed by them and excise the right to income and only set aside a small amount of the income for property management companies. Based on the actual situation, for such parking spaces, appraisal is usually carried out based on the market price and the enterprise subject to system reform shall pay the purchase price of the use right of the parking space in one lump sum.

4.5 Issues to be Noticed for Appraisal of Real Estate with Time Limit Running out

Since the foundation of Shenzhen City more than 20 years ago, a lot of the former land allocated through administrative means (or land allocated through administrative means converted to sold land without extending the time limit) is about to meet the deadline. In 2004, the Shenzhen municipal government promulgated the Numerous Regulations on Extension of Time Limit of Real Estate Meeting the Deadline of Shenzhen City, the Regulations makes specific provisions for issues such as which properties whose time limits

can (cannot) be extended, for how many years the time limit is extended and how to make up the land price. Therefore, when appraising the real estate about to meet the deadline, we shall investigate whether the time limit of the real estate can be extended, if can be extended, we shall appraise its value based on the maximum time limit after extension; if cannot be extended, we shall determine the appraisal price in a comprehensive manner based on the income value of the real estate within the time left plus the salvage value of the building after the deadline is met.

4.6 Issues to be Noticed for Appraisal of Projects Undergoing Construction

For projects undergoing construction, usually the visual progress method is used for appraisal, which is to first compute the value of the project after completion, then decide the visual progress of the project on the benchmark day of appraisal, thus deriving the appraisal price the project undergoing construction, but this appraisal method will have some problems: A. The project is not finished, the designed delivery standard is often different from the actual delivery standard when it is finished and the replacement price is hard to estimate; B. Technical difficulty of determining the visual progress of the project is very big; C. It is hard to determine whether there is project payment owed to the construction unit. Therefore, for the purpose of serving the system reform of enterprises, it is not suitable to use the visual progress method for appraisal. In Shenzhen, values of projects undergoing construction are usually appraised in a comprehensive way based on the construction cost actually invested of the project undergoing construction on the benchmark day of appraisal plus the market appraisal value of the land. Cost actually occurred of the project is invested by the enterprise undergoing system reform and is assumed by the enterprise undergoing system reform regardless of whether it is higher or lower than the market objective cost, so appraisal of projects undergoing construction based on the cost actually incurred can not only prevent loss of state-owned assets, but also can protect the rights and interests of the enterprise undergoing system reform.

4.7 How to Determine the Appraisal Price of Land Parcels Objectively

4.7.1 Appraisal Method

For appraisal of the same land parcel, two or more than two appraisal methods shall be employed. In Shenzhen, transaction in the land market is very active. For appraisal of land parcels meeting the condition, the market comparison approach and method of residues shall be considered first. In the case of appraisal using the market comparison approach, attention shall be paid to correction of comparison cases, for example, for cases of auction, bidding and conclusion of deals, correction shall be made to transactions; for conclusion of deals at different times, correction shall be made to the transaction date; correction shall be made for individual factors, including the scale of the land parcel, extent of development of the land parcel, planning target, landform and time limit of land use. Correction of regional factors shall take into consideration the surrounding environment, road traffic, population density, regional difference, urban planning and public facilities. When employing the method of residues, make sufficient investigation for deciding the selling price of the real estate to learn

the situation and development trend of the regional market. Besides that, notice that different kinds of properties planned for the same land parcel (for instance, buildings for commercial purposes, residence and supporting facilities) are of different construction costs, so construction costs have to be computed separately. Buildings for supporting facilities of the residential area cannot be sold, so usually they are not accounted for in the total real estate sales income, but this part is the cost invested by developers and will also generate certain values, so its development value shall be considered, which is usually not lower than the construction cost invested. Appraisal results of the two different methods will be different, so the price of land parcels can be determined using the weighted mean method.

For regions where transactions are not active, the coefficient correction method of benchmark land price and method of residues can be used for appraisal. The benchmark land price of Shenzhen is adjusted once each year and is published and implemented by the Shenzhen Municipal Bureau of Land Resources and Housing Management. The public announced benchmark land price of Shenzhen is the average market price of land use right computed based on units of grids of land (50m×50m), by dividing land into land for business, office activities, residence and industry in terms of purposes, according to the maximum legal time limit for transfer of land of various purposes and under the condition of set land use condition and development extent of land. The benchmark land price of Shenzhen has been accurate to the price of the 50m×50m grids of land, so the appraisal using the coefficient correction method of benchmark land price usually can make no correction for individual factors and regional factors and only needs to make correction for factors such as the time limit of land use, plot ratio and land type. Under normal circumstances, the land price appraised using this method will be relatively low, so the method of residues is also needed to appraise the price of land parcels in view of the market situation to determine the appraisal price objectively and prevent loss of state-owned assets.

For land not suitable for development and not amenable to methods like the market comparison approach and method of residues, the cost approach can also be adopted for appraisal. However, we have to note that the demolition fee and land acquisition fee incurred during land requisition shall be computed based on the replacement price. Much of the land of enterprises subject to system reform was acquired at early times and the original value of the land requisition fee and land acquisition fee is greatly different from the replacement price on the benchmark day of appraisal. Therefore, the land requisition fee and land acquisition fee have to be reassessed during appraisal rather than using the original value. Moreover, computation of costs shall be based on the objective cost rather than actual cost. In Shenzhen, the incremental profit from land development is calculated as 15% of the sum of the land acquisition fee, development cost, cost of supporting facilities and tax.

4.8 Issues to be Noticed when Writing the Appraisal Report

- Appraisal reports for system reform of enterprises involve many real estate items and a lot of clerical work, so take care not to miss any items, try to be concise and accurate in wording and pay attention to the overall typesetting of the report when writing the appraisal report.

- Appraisal reports shall be written strictly following the requirement of the norm. Appraisal reports of real estate projects shall be written following the Norms for Real Estate Appraisal; appraisal reports of land parcels are written following the Rules for Appraisal of Urban Land.
- If the appraisal report has to be changed many times, the report document before the change shall be kept before making changes and the time and content of change of the change shall be recorded for check.
- Appraisal reports involve a lot of clerical work and many items, so checking of the report shall be strengthened and checking at multiple levels shall be implemented; complete annex materials shall be provided with the appraisal report, including photos of field survey, location map of the property, property rights materials, disposal plan, approval document of system reform and qualification certificates of appraisal organs and appraisers.

5. RELATED SUGGESTIONS

5.1 Impose Strict Requirement on the Comprehensive Ability of Appraisers

System reform of enterprises involves many real estate items of different types and in different areas, so the requirement for appraisers is very high. The appraiser needs not only to have rich experience in appraisal and very strong technical ability, but also very strong ability in communication and coordination and the ability to handle and solve problems independently, thus be able to give correct technical guidance, assess the appraisal price of properties objectively, come out with ideas and means for enterprises in deciding the way to dispose land assets and improving the management of property rights over land assets and provide professional views for enterprises on aspects of policies and laws and appraisal techniques to lend the maximum help to the enterprise and ensure smooth progress of system reform of enterprises and timely completion of the system reform work.

5.2 Keep to Independent Appraisal

System reform of enterprises involves the interests of many parties including the state, enterprises and employees. During the appraisal work, the appraiser shall live up to independent appraisal without being affected by any parties and appraise the value of properties objectively to help enterprises go through system reform smoothly as well as prevent state-owned assets from being lost.

5.3 Strengthen Communication and Coordination

Land assets of enterprises undergoing system reform are complicated and involve great difficulty in affirming ownership and disposal, so the workload of appraisal is heavy and work cycle is long, which requires the appraisal to be able to carry out communication and coordination in time, help enterprises in gathering relevant materials from related sectors in a proactive manner, do well the planning for disposal of land assets and the material approval

work, provide professional opinions and report the work progress to the commissioning unit in time.

There is a long lapse of time between the benchmark day of appraisal and the time of submitting the formal report, during which great changes will occur to the situation of the market and condition of the property, so related notes shall be given in the appraisal report. The commissioning party shall use the appraisal report properly.

BIOGRAPHICAL NOTES

Kang Du Manager of the Appraisal Technical Department and certified real estate appraiser, joining in the Shenzhen Great strategy Real Estate Group Appraise company in 1999 and with rich experience. He is the technical responsible person in planning system reform of enterprises. He ever took charge of the appraisal work of system reform for large-sized enterprises, including the Shenzhen Construction Group, Merchants Holdings Limited, Yongkangde Production Materials Company Limited, Shenhua Group, Shenhua International Travel Agency and Nanao Street Administration Office.

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