

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please make your comments by replying to questions below against proposed changes discussed in the Consultation Paper at the hyperlink:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/documents/cp201009.pdf>

Where there is insufficient space, please attach additional pages as necessary.

A. Exemption for Qualified Property Acquisitions

(1) Scope of the QPA exemption

- 1 (a). Do you agree with the proposal to expand the QPA exemption to acquisitions of land or property development projects in the Mainland from government through the PRC Government Auction Process?

☒ Yes

☐ No

Please provide reasons.

We concur with the reasons given in paragraphs 18 to 25 of the Consultation Paper.

- 1 (b). For the proposed exemption described in 1(a), do you agree with the proposal to exempt government or government entities falling under the current definition of “PRC Governmental Body” in Rule 19A.04?

☒ Yes

☐ No

Please provide reasons.

The scope of the definition of “PRC governmental Body” under R 19A.04 is acceptable.

2. Do you propose other jurisdictions which should qualify for the QPA exemption?

☒ Yes

☐ No

If your answer is “Yes”, please provide details of the legislation and requirements for government land auctions in those jurisdictions and your analysis why they would fit the criteria described in paragraphs 23 and 27 of the Consultation Paper.

We concur with the factors stated in paragraphs 23 and 27 of the Consultation Paper and would like to suggest extending the QPA exemption to the other jurisdictions rather than considering the grant of waiver on an individual case meeting the criteria.

3. Do you agree with the proposal to grant similar waivers to government land acquisitions in other jurisdictions on an individual case basis?

☒ Yes

☐ No

Please provide reasons.

Same as the reply stated in question 2.

4. Do you agree with the factors for granting individual waivers described in paragraph 27 of the Consultation Paper?

☒ Yes

☐ No

Please provide reasons.

Same as the reply stated in question 2.

(2) Conditions for QPA exemption

5. Do you agree with the proposed change to the exemption conditions described in paragraph 34 of the Consultation Paper for property joint ventures with independent third parties?

☒ Yes

☐ No

Please provide reasons.

In reality, a joint venture's financing and profit distribution arrangements may not be on a pro-rata basis to the joint venture partners' interests in the joint venture, but vary according to each joint venture partner's expertise and contribution to the joint venture.

6. Do you agree with the proposed change to the exemption conditions described in paragraph 34 of the Consultation Paper for property joint ventures with Qualified Connected Persons?

☒ Yes

☐ No

Please provide reasons.

We concur with the reasons given in paragraphs 31 and 32 of the Consultation Paper.

(3) General Property Acquisition Mandate

7. Do you agree with the proposal to remove the requirements relating to the General Property Acquisition Mandate currently applying to the formation of joint ventures with Qualified Connected Persons?

☒ Yes

☐ No

Please provide reasons.

We concur with the reasons given in paragraphs 38 and 39 of the Consultation Paper.

(4) Disclosure requirements

8. Do you agree with the proposal to accelerate the disclosure of information relating to the joint ventures for Qualified Property Acquisitions (which is currently required to be made in the annual report) to the announcement/circular stage?

☒ Yes

☐ No

Please provide reasons.

This will keep investors well informed at an early stage.

(5) Property valuation

9. Do you agree with the proposal to exempt property valuation requirement for acquisitions falling under the QPA exemption?

☒ Yes

☐ No

Please provide reasons.

The price in the bidding process reflects the market value of the property.

(6) Changes to the Rules

10. Do you have any comments on the draft Rule amendments relating to the QPA exemption in Part A of Appendix I of the Consultation Paper?

☒ Yes

☐ No

If you answer is "Yes", please state.

Under Chapter 14, a transaction of a revenue nature (e.g. acquisition of a property for sale only) is exempt from the requirements of that Chapter whereas a transaction of a capital nature (e.g. acquisition of a property for leasing) is not exempt.

In fact, it is not unusual that the property developers in Hong Kong are engaged in both property development and property leasing though the weight may not be equal. For example, acquisitions of land by private treaty and government or government-controlled entities through public auctions or tenders in the PRC are usually large-scale property developments with a mixed residential and commercial development mode containing certain parts thereof to be held for leasing purpose in order to generate a stable source of operating income.

Under the current Chapter 14, the Exchange accepts that if property development is a principal activity of an issuer, any transaction involving the acquisition and disposal of properties (i.e. revenue nature transaction) of such issuer which is carried out in its ordinary and usual course of business is exempt. Applying the same principle, it would be reasonable to exempt property leasing transactions if property leasing is a principal activity of an issuer and the transactions are carried out in the issuer's ordinary and usual course of business.

As such, as long as property developers are concerned, we may suggest the Exchange to consider amending the Listing Rules to the effect that any transaction of a capital nature could be exempt if property leasing is a principal activity of a listed issuer and the transaction is carried out in the issuer's ordinary and usual course of business.

For the purpose of determining whether property leasing is a principal activity of a listed issuer, consideration may be given to factors like:

- i. whether there is clear disclosure of property leasing activity as a current and continuing principal business activity in the issuer's latest published consolidated accounts;
- ii. whether the value of the leased properties accounts for a certain percentage (say 10% or higher) to the issuer's total assets (or other comparable accounting component) or if appropriate, whether the leasing income accounts for 10% or higher to the issuer's aggregate turnover, as shown in the latest published consolidated accounts .

Trust that this amendment would be more reasonable and fair to those property developers which are engaged in property leasing as one of their principal ordinary activities and relieve them of complying with the requirements under Chapter 14.

B. Formation of joint ventures

11. Do you agree with the proposal to exempt “revenue joint venture projects” described in paragraph 61 of the Consultation Paper?

☒ Yes

☐ No

Please provide reasons.

We concur with the reasons given in paragraphs 56 and 57 of the Consultation Paper, but with the view that the exemption should be extended to “capital joint venture projects” as described in the reply stated in question 10.

12. Do you agree that the proposed draft Rule amendments in Part B of Appendix I of the Consultation Paper will implement our proposal?

☒ Yes

☐ No

If your answer is “No”, please provide reasons and alternative views.

13. Do you have other comments on this consultation paper?

☒ Yes

☐ No

If your answer is “Yes”, please state.

Similar exemption should be considered for joint venture in respect of property for leasing on the basis of the reasons as set out in the reply stated in question 10.

- End -