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Asia

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Dear ██████████

RICS Response: Proposed Changes to Property Valuation Requirements

Thank you for the opportunity to comment on the proposed changes to property valuation requirements. RICS (the Royal Institution of Chartered Surveyors) aims to uphold the highest standards in valuation through regulation, providing guidance and updated information to our members. Our approach is to demonstrate best practice in valuation and to provide expert, impartial advice to Governments and agencies.

In compiling a response to this paper, we conducted a survey to collect a wide range of member views. Our positions are supported by a majority of respondents; however in places where there is no clear consensus we have spelt out both sides of the argument. I hope you find our comments helpful.

New requirements for property valuation

The asset value of each company (and in particular the value of its property holdings) is often the most important factor in determining the strength of its portfolio. Similarly, any summary of the value of the total assets of a listed company cannot be made without valuing all its properties. By its nature, however, values are likely to fluctuate at any length of time; therefore RICS strongly advocates that valuation should be carried out at regular intervals and capture relevant information to enable investors and consumers to make informed decisions.

A consistent approach to valuation will ensure companies undertaking due diligence on properties for general disclosure understand and adhere to the new requirements. One of the concerns RICS members have raised is that under the proposed format for a summary disclosure of property interests certain material facts and/or issues relating to property valuation may be excluded. For example, companies may wish to include investment assets, elaborate on the age of the property rather than the date of commencement of construction; occupancy and rental details etc. In an era when greater transparency of process is required, and valuation reports are becoming more detailed and informative, this would appear to be a backward step.

RICS Valuer Registration Scheme

A more rigorous test of valuations ensures high quality valuations and consumer confidence. To this end RICS has launched the RICS Valuer Registration Scheme, enforcing mandatory

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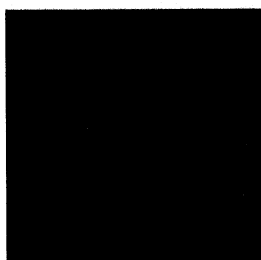
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registration in the UK on 20 October 2010, with a further roll out in Asia planned for later this year. The scheme will assure the quality of valuations - a key component underpinning most economic activity – and set out to reinforce professional standards and raise consumer confidence in the delivery of valuation advice to the highest professional standard. This will be achieved through an established register of valuers working in RICS regulated firms and other organisations and a system of regulatory monitoring. We believe that within Hong Kong, this will raise the credibility of valuers and provide clients with a clearly identifiable designation for the best regulated and qualified professionals in the field.

In closing, we hope to discuss this with you in a face to face meeting in the near future. ■

■. I hope you find our input constructive and we look forward to further dialogue with you on this.

Sincerely yours,



RICS Asia Valuation Professional Group



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Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed changes discussed in the Consultation Paper downloadable from the SFC website at: <https://www.sfc.hk/sfcConsultation/EN/sfcConsultFileServlet?name=PropertyValuation&type=1&docno=1> or HKEx website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/documents/cp201012.pdf>.

Where there is insufficient space provided for your comments, please attach additional pages.

Part I: Proposals To Amend Property Valuation Requirements For Applicants

Proposals for all Applicants

1. Do you agree with the proposed disclosure guidance for material property interests in paragraph 61 of the Consultation Paper?

Yes

No

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

2. Do you agree that the proposed definition of property activities is appropriate?

Yes

No

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

On balance RICS members agreed with the proposed definition; however it may be more prudent to define in detail what is meant by “properties for own use” to avoid abuse of this type of activities. For example, leased “properties for own use” can be excluded under this definition. Properties bought for own use should also be deemed “property activities” as it may be possible that buyers are avoiding Capital Gains.

3. Do you agree with the proposed definition of a property interest in paragraph 67 of the Consultation Paper?

Yes

No

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

On balance RICS members agreed with this definition; however one respondent suggested the HKEx should consider excluding equipment and machinery not used for production, and qualify if these are not fixed or immovable.

4. Do you agree with the proposed guidance on what should be treated as a single property interest in paragraph 69 of the Consultation Paper?

Yes

No

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

On balance RICS members agreed with this definition; however one respondent suggested that HKEx should consider requiring projects to be in one location (point g).

5. In addition to the information mentioned in paragraph 74 of the Consultation Paper, is there any other information that should be disclosed in a valuation report that is not required at present by the Listing Rules? Also, is there any information that is no longer required to be disclosed in a valuation report?

Yes

No

If your answer is “Yes”, please state.

Additional information should include details of unit rents, yields and discount rates used, and the name and the qualifications of the person who carried out the site inspection.

6. Do you agree with the proposal to maintain the effective date at which the property was valued under Rule 5.07 at not more than 3 months before the date of the listing document?

Yes

No

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

On balance RICS members agree with this proposal; however some respondents believed it is logical for the two reports to have the same effective date, bi-annually to maintain consistence with the validity period of accounting/auditing reports.

7. Do you think that the prospectus law should retain requirements for property valuations in line with the proposals in this paper? Alternatively is it sufficient for the prospectus law to rely on the general disclosure obligation under the Companies Ordinance?

Yes

No

Please give reasons.

Properties are often the most significant assets of a company and should be valued. Any new law should include valuations; these requirements should also be made clear and communicated to all parties to ensure compliance. It would be clearer if the prospectus has similar requirements as the Companies Ordinance.

Proposals for Property Activities

8. Do you agree not to require property valuations and disclosing valuation information if the carrying amount of a property interest of an applicant's property activities is below a percentage of its total assets?

Yes

No

If your answer is "No", please give reasons and alternative views.

9. Do you agree not to require valuation of a property interest with carrying amount below 1% of total assets?

Yes

No

If your answer is "No", please give reasons and alternative views.

10. Do you agree that the total carrying amount of property interests that do not require valuation cannot exceed 10% of the applicant's total assets?

Yes

No

If your answer is "No", please give reasons and alternative views.

On balance, RICS members agreed with this although the same concerns apply to ascribing a percentage to determining which property interests require a valuation (response to Q8).

11. Do you agree that a listing document should include full text of valuation reports for all property interests that are required to be valued under property activities except where summary disclosure is allowed?

Yes

No

If your answer is "No", please give reasons and alternate views.

12. Do you agree to allow summary disclosure if the market value of a property interest as appraised by the valuer is less than 5% of the property interests that are required to be valued under property activities?

Yes

No

If your answer is "No", please give reasons and alternative views.

13. Do you agree with the form for summary disclosure of property interests in Appendix II of the Consultation Paper?

Yes

No

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

The form is too simplified; under this format, certain material facts/issues relating to property valuation may be excluded. As drafted, the criterion for disclosure is limited to the development aspect. The HKEx should also consider investment assets, ie. the age of the property rather than the date of commencement of construction; occupancy and rental details etc.

14. Do you agree that an applicant should be required to include an overview in the listing document describing all property interests not covered by a valuation report?

Yes

No

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

15. Do you agree that the proposed class exemption notice should apply to prospectus for unlisted companies as well as applicants?

Yes

No

If you answer is “No”, please give reasons and alternate views.

16. Do you agree that the proposed class exemption notice in Appendix III of the Consultation Paper will implement the proposals for property activities?

Yes

No

If you answer is “No”, please give reasons and alternate views.

17. Do you agree that the proposed Listing Rule amendments in Appendices IV.A and IV.B of the Consultation Paper will implement the proposals for property activities?

Yes

No

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

Proposals for Non-Property Activities

18. Do you agree that a full text of valuation report is required if the carrying amount of a property interest is or is above 15% of an applicant’s total assets?

Yes

No

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

While more RICS members agreed than disagreed with this statement, those that opposed it believed that 15% is too high or preferred a fixed amount.

19. Do you agree that the 15% threshold should be calculated using:

(a) the carrying amount of a property interest; and

(b) total assets

reflected in the accountants’ report of the applicant?

Yes

No

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

While the balance of RICS members agreed with this method, those who disagreed had two different views: one being that market values should be used to calculate the threshold; the other did not agree with the asset value test as a requirement for property interest to be appraised.

20. Do you agree with the proposed disclosure requirement for property interests in paragraph 98 of the Consultation Paper?

Yes

No

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

21. Do you agree that an applicant should be required to include an overview in the listing document describing all property interests not covered by a valuation report?

Yes

No

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

22. Do you agree that property interests ancillary to mining activities will not be required to be valued if the prospectus includes a valuation by an independent professionally qualified valuer of the associated mineral or petroleum assets or resources?

Yes

No

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

This should not be the case if property interests are substantial (for example processing plants or effective self supporting towns in remote areas).

The type of mine development and the life of mine are key to determining the value of the mine, and the property attached to the mine. For valuation purposes, it is difficult to define the exact criteria as each mine site is unique in terms of operational characteristics. There will be a multitude of issues that need to be considered to arrive at value, especially reporting requirements for listed companies.

Most importantly, the location of the property attached to the mine will determine its viability as a stand alone business: its proximity to distribution points, processing plants and markets will make a material difference in its value. It is also worth noting that it is not unusual for a mine site to accept materials from another property for processing/blending of product purposes. This may have an impact on the overall value of the mine and therefore on the value of the property attached to the mine.

23. Do you agree that the proposed class exemption notice should apply to prospectus for unlisted companies as well as applicants?

Yes

No

If you answer is “No”, please give reasons and alternate views.

24. Do you agree that that proposed class exemption notice in Appendix III of the Consultation Paper will implement the proposals for non-property activities?

Yes

No

If you answer is “No”, please give reasons and alternate views.

25. Do you agree that the proposed Listing Rule amendments in Appendices IV.A and IV.B of the Consultation Paper will implement the proposals for non-property activities?

Yes

No

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

Part II: Proposals To Amend Property Valuation Requirements For Issuers

26. Do you agree with the proposed disclosure guidance for material property interests in paragraph 61 of the Consultation Paper?

Yes

No

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

As with Q1, on balance RICS members agreed with the disclosure guidance; however one respondent pointed out that the requirement for (a) may substantially lengthen the valuation report and time and costs required.

27. Do you agree that it is unnecessary to introduce different valuation requirements for acquisition or disposal of non-property activities and property activities for issuers?

Yes

No

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

28. Do you agree with the proposal to remove valuation requirements if the company being acquired or disposed of is listed on the Exchange, except for a connected transaction (see paragraph 123 of the Consultation Paper)?

Yes

No

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

Updated market valuations should be included to enable investors to make informed decisions. If assets have recently (within 3 months or less) been valued by an independent valuer for annual reporting, then they can be exempt from this requirement.

29. Do you agree that an overview of property interests not covered by a valuation report be disclosed in the circular?

Yes

No

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

While most RICS members agreed with this, one respondent believed updated valuations are necessary as share prices may or may not be a good indication of the properties held by the company in question.

30. Do you agree not to require property valuations and disclosing valuation information for acquisition or disposal of an unlisted company if the carrying amount of a property interest is below a percentage of the issuer’s total assets?

Yes

No

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

31. Do you agree not to require valuation of property interest with carrying amount below 1% of the issuer’s total assets?

Yes

No

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

32. Do you agree that the total carrying amount of property interests that do not require valuation cannot exceed 10% of the issuer's total assets?

Yes

No

If your answer is "No", please give reasons and alternative views.

33. Do you agree with the proposed definition of property interest in paragraph 67 of the Consultation Paper?

Yes

No

If your answer is "No", please give reasons and alternate views.

34. Do you agree with the proposed guidance on what should be treated as a single property interest in paragraph 69 of the Consultation Paper?

Yes

No

If your answer is "No", please give reasons and alternate views.

On balance RICS members agreed with this definition; however one respondent suggested that HKEx should consider requiring projects to be in one location (point g).

35. Do you agree that a circular should include full text of valuation reports for all property interests that are required to be valued except where summary disclosure is allowed?

Yes

No

If your answer is “No”, please give reasons and alternate views.

36. Do you agree to allow summary disclosure if the market value of a property interest as appraised by the valuer is less than 5% of the property interests that are required to be valued?

Yes

No

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

As no consensus could be reached in response to this; RICS can only describe the concerns which have been expressed by its members. Those who disagree cite the need to introduce a fixed amount (rather than a percentage) or argue that a full, rather than summary disclosure is required.

37. Do you agree with the form for summary disclosure of property interests in Appendix II of the Consultation Paper?

Yes

No

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

As no consensus could be reached in response to this; RICS can only describe the concerns which have been expressed by its members. Those who disagree cite the need to require a full, rather than summary disclosure or that the form is only suitable for developments and not investments.

38. Do you agree that an overview of property interests not covered by a valuation report be disclosed in the circular?

Yes

No

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

39. Do you agree that for an acquisition or disposal of an unlisted company, valuations will not be required for property interests ancillary to mining activities if the circular includes a valuation by an independent professionally qualified valuer of the associated mineral or petroleum assets or resources?

Yes

No

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

This should not be the case if property interests are substantial (for example processing plants or effective self supporting towns in remote areas).

The type of mine development and the life of mine are key to determining the value of the mine, and the property attached to the mine. For valuation purposes, it is difficult to define the exact criteria as each mine site is unique in terms of operational characteristics. There will be a multitude of issues that need to be considered to arrive at value, especially reporting requirements for listed companies.

Most importantly, the location of the property attached to the mine will determine its viability as a stand alone business: its proximity to distribution points, processing plants and markets will make a material difference in its value. It is also worth noting that it is not unusual for a mine site to accept materials from another property for processing/blending of product purposes. This may have an impact on the overall value of the mine and therefore on the value of the property attached to the mine.

40. Do you agree with the proposal relating to a very substantial acquisition in paragraph 121 of the Consultation Paper?

Yes

No

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

41. Do you agree with the proposal to retain the existing valuation requirements for connected transactions?

Yes

No

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

42. Do you agree that valuation will continue to be required if the connected transaction involves an acquisition or disposal of a company listed on the Exchange?

Yes

No

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

43. Do you agree with the proposals relating to connected transactions in paragraph 125 of the Consultation Paper?

Yes

No

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

44. In addition to the information mentioned in paragraph 74 of the Consultation Paper, is there any other information that should be disclosed in a valuation report that is not required at present by the Listing Rules? Also, is there any information that is no longer required to be disclosed in a valuation report?

Yes

No

If your answer is “Yes”, please state.

Additional information should include details of rents, yields and capital values used, with supporting comparables.

45. Do you agree with the proposal to maintain the effective date at which the property was valued under Rule 5.07? (Please note that the same question has been raised for applicants in question 6).

Yes

No

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

On balance RICS members agree with this proposal; however some respondents believed it is logical for the two reports to have the same effective date, bi-annually to maintain consistency with the validity period of accounting/auditing reports.

46. Do you agree that the proposed Listing Rule amendments in Appendices IV.A and IV.B of the Consultation Paper will implement the proposals for issuers?

Yes

No

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

- End -