

HKEx GUIDANCE LETTER

HKEx-GL65-13 (September 2013) (Updated in January 2015)

(Withdrawn in July 2018; superseded by HKEX-GL56-13)

Subject	Disclosure in listing documents for IPO cases – information in property valuation report and market report
Listing Rules and Regulations	Main Board Rules 2.13(2) and 11.07 GEM Rules 14.08(7) and 17.56(2)
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Important note: *This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Division on a confidential basis for an interpretation of the Listing Rules or this letter.*

1. Purpose

- 1.1 This letter gives guidance on the disclosure in listing documents in respect of various basis and assumptions adopted by property valuers and independent market consultants in the preparation of property valuation reports and market reports.

2. Background

- 2.1 In some cases, a substantial portion of the IPO proceeds will be used to acquire certain properties and information in a property valuation report may be interlinked with that in a market report to determine the valuation of the relevant properties. Given that various assumptions adopted by a property valuer and an independent market consultant will affect the valuation of the properties, the bases and justifications of these assumptions are material information for investors to make an informed assessment of the property interests to be acquired by an applicant.
- 2.2 For any businesses that rely heavily on cashflow based valuations (e.g. a property investor), it is important that the valuation inputs and their justifications are clearly highlighted to potential investors for them to make an informed assessment.

3. Relevant Listing Rules

- 3.1 Main Board Rule 2.13(2) (GEM Rule 17.56(2)) states that the information contained in an applicant's listing document must be accurate and complete in all material respects and not be misleading or deceptive. In complying with this requirement, the issuer must not, among other things:
- (a) omit material facts of an unfavourable nature or fail to accord them with appropriate significance;
 - (b) present favourable possibilities as certain or as more probable than is likely to be the case; and

- (c) present projections without sufficient qualification or explanation.

3.2 Main Board Rule 11.07 (GEM Rule 14.08(7)) states that as an overriding principle, all listing documents must contain such particulars and information which, according to the particular nature of the issuer and the securities for which listing is sought, is necessary to enable an investor to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of the issuer and of its profits and losses and of the rights attaching to such securities.

4. Guidance

4.1 The Exchange considers an applicant that has included a property valuation report and a market report (if any) in its listing document should ensure that sufficient disclosure be made in its listing document in respect of the bases and justifications of assumptions adopted in both reports and the information in both reports do not contradict each other. We normally expect, at a minimum, disclosure of the following information:

Property valuation report

- (a) for valuation of property interests using discounted cash flow method¹: the bases and justifications of the key assumptions (e.g. discount rate, terminal capitalisation rate);
- (b) for valuation of property interests using comparison method¹: details of comparable properties and the bases why they are selected, how the valuation of an applicant's properties differ from those of comparable properties (e.g. premium or discount) and reasons for material differences;
- (c) clear references to tenure and other specific factors such as title defects and special requirements imposed on the properties by the land grant contracts, and the associated value implications, if material; and (*Updated in January 2015*)

Market report

- (d) the bases and justifications of key assumptions specific to an applicant's business. For example, the bases and justifications of market monthly rent and capitalisation rate adopted by a property developer and investor. In a recent case, an applicant owning and operating hotels was required to disclose in its listing document the bases and justifications of the assumptions about growth in visitor arrivals, ratio of overnight visitors to total visitor arrivals, average length of stay, average number of guests per room, and hotel guests as a percentage of overnight guests.
- 4.2 An applicant should also benchmark the assumptions adopted with historical data for a prolonged period of time to enable investors to assess the reasonableness of the assumptions and explain their material fluctuations.

4.3 In addition, an applicant should include in its listing document:

¹ Discounted cash flow method and comparison method are two common property valuation methods.

- (a) in the Summary section the valuation of the properties and justifications of the assumptions adopted in the property valuation report and market report which are material for investors to make an informed assessment;
- (b) in the Summary and Risk Factors sections the relevant material risks (e.g. assumptions adopted may not be realised); and
- (c) a sensitivity analysis on the valuation of the properties, where possible.
