

Chapter 5

VALUATION OF AND INFORMATION ON PROPERTIES

Definitions

5.01 In this Chapter:-

- (1) “carrying amount” means, for an applicant, the amount at which an asset is recognised in the most recent audited consolidated balance sheet of the group as disclosed in the listing document after deducting any accumulated depreciation (amortisation) and accumulated impairment losses. For an issuer, the amount at which an asset is recognised in its latest published audited consolidated accounts or latest published interim report (whichever is more recent) after deducting any accumulated depreciation (amortisation) and accumulated impairment losses;

Note: If an acquisition is made after the latest consolidated audited accounts, the acquisition cost should be used.

- (2) “property activities” mean holding (directly or indirectly) and/or development of properties for letting or retention as investments, or the purchase or development of properties for subsequent sale, or for subsequent letting or retention as investments. It does not include holding of properties for own use;

Notes: 1 Any other property interest is classified as “non-property activities.”

2 The listing document date must be used as the timing reference point to categorise a property interest into property activity or non-property activity.

- (3) “property” means land and/or buildings (completed or construction in progress). Building includes fittings and fixtures. “Property interest” means an interest in the property;

Note: Fittings and fixtures include building services installation such as plumbing and pipes, electrical instalments, ventilation systems, escalators and improvements generally. Equipment and machinery used for production should be excluded.

A property interest may comprise:

- (1) one or more units in the same building or complex;

- (2) *one or more properties located at the same address or lot number;*
 - (3) *one or more properties comprising an integrated facility;*
 - (4) *one or more properties, structures or facilities comprising a property development project (even if there are different phases);*
 - (5) *one or more properties held for investment within one complex;*
 - (6) *one or more properties, structures or facilities located contiguously to each other or located on adjoining lots and used for the same or similar operational/business purposes; or*
 - (7) *a project or phases of development presented to the public as one whole project or forming a single operating entity.*
- (4) "total assets" means, for an applicant, the total fixed assets, including intangible assets, plus the total current and non-current assets, as shown in the latest audited consolidated financial statements in the accountants' report in the listing document. For an issuer, total assets has the same meaning as in Chapter 14.

Requirements for an applicant

5.01A A listing document issued by an applicant must include valuations of and information on property interests:

- (1) that form part of its (or, for debt securities, the guarantor's) property activities except for those with a carrying amount below 1% of its total assets. The total carrying amount of property interests not valued must not exceed 10% of its total assets; and
- (2) that do not form part of its (or, for debt securities, the guarantor's) property activities if the carrying amount of a property interest is or is above 15% of its total assets.

5.01B The listing document must include:

- (1) for property interests of an applicant's property activities:
 - (a) the full text of valuation reports of property interests that are required to be valued except where summary disclosure is allowed; and
 - (b) a summary disclosure if the market value of a property interest as determined by the valuer is less than 5% of its total property interests that are required to be valued under rule 5.01A(1). See Appendix D4 for the summary form

of disclosure. The Exchange may accept variation of the summary form of disclosure based on the applicant's circumstances. The valuation report setting out the information required by these Rules must be published on the Exchange's website and the issuer's own website;

Note: The summary form of disclosure may be varied based on the applicant's circumstances. An applicant must include additional information necessary for investors to make an informed decision.

- (2) for property interests of an applicant's non-property activities:
 - (a) the full text of valuation reports if the carrying amount of a property interest is or is above 15% of its total assets; and
 - (b) a statement that, except for the property interests in the valuation reports, no single property interest that forms part of its non-property activities has a carrying amount of 15% or more of total assets;
- (3) an overview of property interests not covered by a valuation report, including their number and approximate size range, uses, how they are held and the general description of the area where they are located. The overview may include property interests voluntarily valued and disclosed separately in the listing document; and
- (4) the general information in rule 5.10, if it applies.

5.01C Rules 5.01A and 5.01B (except rules 5.01B(3) and 5.01B(4)) do not apply to property interests ancillary to the exploration for and/or extraction of Natural Resources (as defined in Chapter 18) if the listing document includes a valuation that encompasses these Natural Resources and ancillary property interests, and together have been valued as a business or as an operating entity by a Competent Evaluator (as defined in Chapter 18).

Note: Rules 5.01A(2) and 5.01B(2) to (4) apply to property interests ancillary to the exploration for and/or extraction of Natural Resources if the listing document does not include a valuation of all the ancillary property interests conducted by a Competent Evaluator.

Requirements for an issuer

5.02 For an acquisition or disposal of any property interest, or of a company whose assets consist solely or mainly of property, where any of the percentage ratios (as defined in rule 14.04(9)) of the transaction is or is above 25%, then a valuation of and information on the property must be included in the circular issued to shareholders in connection with the acquisition or disposal (see rule 14.66(11)) unless rule 5.02A applies. In this rule and in rule 5.03, a circular issued "in connection with an acquisition" includes a listing

document issued for a rights issue, the proceeds of which are to be used to retire a debt with which the property or company had previously been acquired. The listing document need not contain a valuation report if a circular containing a valuation report was issued to shareholders when the property or company was acquired.

5.02A Valuation of a property interest is not required if:

- (1) it is acquired from the Hong Kong Government at a public auction or by sealed tender; or
- (2) the property is acquired under a Qualified Property Acquisition (as defined in rule 14.04(10C)) falling under rules 14.33A to 14.33B; or
- (3) the company being acquired or disposed of is listed on the Exchange, except if it is a connected transaction; or
- (4) subject to rule 5.03, the property interests in the company being acquired or disposed of is ancillary to the exploration for and/or extraction of Natural Resources (as defined in Chapter 18) and the circular includes a valuation that encompasses these Natural Resources and ancillary property interests, and together have been valued as a business or as an operating entity by a Competent Evaluator (as defined in Chapter 18); or

Note: Rule 5.02 applies to property interests ancillary to the exploration for and/or extraction of Natural Resources if the circular does not include a valuation of all the ancillary property interests conducted by a Competent Evaluator.

- (5) subject to rule 5.03, the carrying amount of a property interest in the company being acquired or disposed of is below 1% of the issuer's total assets. The total carrying amount of property interests not valued must not exceed 10% of the issuer's total assets.

5.02B Subject to rule 5.03, the circular issued under rule 5.02 must include:

- (1) for a property interest, the full text of valuation reports;
- (2) for an unlisted company whose assets consist solely or mainly of property:
 - (a) the full text of valuation reports of property interests that are required to be valued under rule 5.02 except where summary disclosure is allowed; and
 - (b) a summary disclosure if the value of a property interest as determined by the valuer is less than 5% of the total property interests that are required to be valued under rule 5.02. See Appendix D4 for the summary form of disclosure.

The Exchange may accept variation of the summary form of disclosure based on the issuer's circumstances. The valuer's report setting out the information required by these Rules must be published on the Exchange's website and the issuer's own website; and

Note: The summary form of disclosure may be varied based on the issuer's circumstances. An issuer must include additional information necessary for investors to make an informed decision.

- (c) an overview of property interests not covered by a valuation report, including their number and approximate size range, uses, how they are held and the general description of the area where they are located. The overview may include property interests voluntarily valued and disclosed separately in the circular;
 - (3) for a company listed on the Exchange whose assets consist solely or mainly of property, an overview of property interests, including their number and approximate size range, uses, how they are held and the general description of the area where they are located; and
 - (4) the general information in rule 5.10, if it applies.
- 5.03 For a connected transaction involving an acquisition or a disposal of any property interest or of a company whose assets consist solely or mainly of property (including a company listed on the Exchange), a valuation of and information on the property must be included in any circular issued to shareholders in connection with the acquisition or disposal (see rule 14A.70(7)). The circular must include full text of valuation reports and the general information in rule 5.10, if it applies.
- 5.04 These requirements do not apply in the case of an issue of debt securities by a State, Supranational, State corporation or bank.
- 5.04A [Repealed 1 January 2012]

Valuation report requirements

Basic contents

- 5.05 All valuation reports must contain all material details of the basis of valuation which must follow The Hong Kong Institute of Surveyors ("HKIS") Valuation Standards on Properties published from time to time by the HKIS or the International Valuation Standards published from time to time by the International Valuation Standards Council.

5.06 All valuation reports should normally contain the following information:—

- (1) a description of each property including:—
 - (a) an address sufficient to identify the property, which should generally include postal address, lot number and such further designation as is registered with the appropriate government authorities in the jurisdiction in which the property is located;
 - (b) a brief description (e.g. whether land or building, approximate area, etc.);
 - (c) the existing use (e.g. shops, offices, factories, residential, etc.);
 - (d) the Ground/Government Rent;
 - (e) a summary of the terms of tenants' leases or underleases (including repairing obligations, where material);
 - (f) the approximate age of buildings;
 - (g) the terms of tenure;
 - (h) the terms of any intra-group lease granted by a parent company to a subsidiary on property occupied by the group (identifying the properties);
 - (i) the capital value in existing state at the effective date as at which the property was valued;
 - (j) the current planning or zoning use;
 - (k) the options or rights of pre-emption concerning or affecting the property;
 - (l) the basis of and approach to valuation for the property interest;
 - (m) when the site was last inspected;
 - (n) summary of investigation carried out, including details of inspection, such as building conditions, availability of building services, etc.;
 - (o) nature and source of information relied on;
 - (p) details of title and ownership;
 - (q) details of encumbrances;
 - (r) how the properties are grouped together for each valuation certificate;
 - (s) names and qualifications of persons who carried out the site inspection; and
 - (t) any other matters which may materially affect the value;

- (2) where the property is not in the process of being developed, details of rentals of the property including:—
 - (a) the existing monthly rental before profits tax if the property is wholly or partly let together with the amount and a description of any outgoings or disbursements from the rent, and, if materially different, the estimated current monthly market rental obtainable, on the basis that the property was available to let on the effective date as at which the property was valued;
 - (b) a summary of any rent review provisions, where material; and
 - (c) the amount of vacant space, where material;

- (3) where the property is in the process of being developed the following additional details, where available:—
 - (a) details of development potential and whether architectural plans have been approved or planning consent has been obtained and any conditions imposed in respect of such approval;
 - (b) any material restrictions on development including building covenants and time limits for completion of the development;
 - (c) existing stage of development;
 - (d) estimated completion date;
 - (e) estimated cost of carrying out the development or (where part of the development has already been carried out) the estimated cost of completing the development;
 - (f) estimated capital value in existing state at the effective date as at which the property was valued;
 - (g) estimated capital value after completion;
 - (h) any material special or general conditions affecting the development of the property;
 - (i) any conditions imposed as to construction of roadways, pathways, drainage, sewage and other facilities or services for public use, if material;
 - (j) any sales arrangements and/or letting arrangements existing at the effective date as at which the property was valued; and
 - (k) any construction costs incurred up to the effective date as at which the property was valued;

- (4) where property is held for future development purposes the following additional details, where available:—
 - (a) details of development potential and whether architectural plans have been approved or planning consent has been obtained and any conditions imposed in respect of such approval;
 - (b) any material special or general conditions affecting the development of the property including building covenants and time limits for completion of the development; and
 - (c) any conditions imposed as to construction of roadways, pathways, drainage, sewage and other facilities or services for public use, if material;
- (5) a classification of the property according to the purpose for which it is held. The acceptable categories are:—
 - (a) property held for development;
 - (b) property held for investment;
 - (c) property held for owner occupation; and
 - (d) property held for sale;
- (6) details of any agreement or proposals as to any proposed transaction regarding the property between the issuer and any other member of the group;
- (7) the name of the valuer, his address and professional qualification;
- (8) the effective date as at which the property was valued and the date of the valuation; and
- (9) such other information as the Exchange may require.

Note: See Practice Note 12

Effective Date

5.07 The effective date as at which the property was valued must not be more than three months before the date on which the relative listing document or circular is issued and if such effective date is not the same as the end of the last period reported on by the reporting accountants (see Chapter 4), it will be necessary for the listing document or circular to include a statement reconciling the valuation figure with the figure included in the balance sheet as at the end of that period.

Independence of Valuer

5.08 Unless dispensation is obtained from the Exchange, all valuations of properties must be prepared by an independent qualified valuer and for this purpose:—

- (1) a valuer is not independent if:—
 - (a) he is an officer or servant or proposed director of the issuer or the issuer's subsidiary or holding company or of a subsidiary of the issuer's holding company or any associated company; or
 - (b) in the case of a firm or company of valuers, it is the issuer's subsidiary or holding company or a subsidiary of the issuer's holding company or any of its partners, directors or officers is an officer or servant or proposed director of the issuer or the issuer's subsidiary or holding company or of a subsidiary of the issuer's holding company or any associated company; and
- (2) a valuer is a qualified valuer only if:—
 - (a) for the purposes of valuation of properties situated in Hong Kong, the valuer is a fellow or associate member of The Royal Institution of Chartered Surveyors (Hong Kong Branch) or The Hong Kong Institute of Surveyors and carries on the business in Hong Kong of valuing properties and is authorised to do so by the rules of the relevant professional institution of which he is a member; or
 - (b) for the purposes of valuation of properties situated outside Hong Kong, the valuer has the appropriate professional qualifications and experience of valuing properties in the same location and category to carry out the valuation.

Other Reports

5.09 If the issuer has obtained more than one valuation report regarding any of the issuer's properties referred to in the listing document or circular within three months before the issue of the listing document or circular then all other such reports must be included.

General disclosure

5.10 A listing document, or a circular issued under rules 5.02 and 5.03, must disclose relevant information on material properties (including leased properties).

Notes: Information may include the following:

- (1) a general description of where the property is located (rather than only its address) and some market analysis if the property relates to property activities. For example, whether the property is located in the central business district, supply and demand information, occupancy rates, trends in property yield, sales prices, rental rates etc.;*
- (2) use and approximate area;*
- (3) any restrictions on its use;*
- (4) an indication of how the property is held. For example, owned or leased. If leased, the remaining term of the lease;*
- (5) details of encumbrances, liens, pledges, mortgages against the property;*
- (6) environmental issues, such as breach of environmental regulations;*
- (7) details of investigations, notices, pending litigation, breaches of law or title defects;*
- (8) plans for construction, renovation, improvement or development of the property and estimated associated costs;*
- (9) plans to dispose of or change the use of the property; and*
- (10) any other information considered material for investors.*