



17 March 2011

Corporate Communications Department,
Hong Kong Exchanges and Clearing Limited,
12th Floor, One International Finance Centre,
1 Harbour View Street, Central,
Hong Kong

Dear Sirs,

Re: **Joint SFC/HKEx Consultation Paper on Proposed Changes to Property Valuation Requirements (the “Joint Consultation Paper”)**

We, SBI E2-Capital (HK) Limited, were asked last week by the Listing Division to comment on the Joint Consultation Paper as at that time no sponsors had commented on it.

We understand that, as regulatory bodies, it is important to weigh a number of factors carefully in assessing the appropriateness of changes to long-established practices – such factors include, but are not limited to, reviewing practice in other major overseas markets and assessing whether such practice can be adopted in Hong Kong. Issues that have to be considered include the maintenance of a quality market, relieving what may be considered to be an unnecessary burden on applicants/issuers, while ensuring that transparency for the benefit of investors and the market is not harmed. The Joint Consultation Paper proposes a quite radical change to the property valuation approach in relation to not only listed issuers but also listing applicants which implicitly increases the burden on sponsors and has implications in relation to the role of property valuation companies and the level of transparency in relation to listing applicants’ and listed issuers’ property portfolios. Consequently, we hope that the regulatory authorities will carefully consider the views expressed pursuant to this consultation exercise before reaching their conclusions.

With the foregoing as an introduction, we hereby enclose some comments for your consideration.

Should you have any queries, please do not hesitate to contact the undersigned or [REDACTED].
Yours faithfully,

For and on behalf of
SBI E2-Capital (HK) Limited

[REDACTED]
[REDACTED]
[REDACTED]

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 - please see comments below

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

Please refer to our response to question 8.

Materiality Guidance section (paras 58-59)

We note that the drafting of the last sentence of para. 56 of the Joint Consultation Document (“We expect applicants and sponsors to consider materiality in light of all the relevant circumstances and disclose property valuations and/or material property interests”) lumps together listing applicants and sponsors in respect of responsibility for disclosure of property valuations and/or material property interests. This would seem to blur the line between directors of an listing applicant and the sponsor and, if intended, runs counter to the established legal requirement for the responsibility for prospectus disclosure to lie specifically with the directors of listing applicants.

In relation to determining materiality of property interests, if the Joint Consultation Document proposals are adopted, we suggest that the process should work this way: the listing applicant, in particular the directors and senior management of the applicant, who are the ones who know best and most accurately “all facts and circumstances of the applicant”, should first identify the applicant’s property interests and make an internal assessment as to their materiality to the applicant’s business operation. Having done this, then in discussion with the sponsors and professional parties such as reporting accountants, valuers and legal advisers as appropriate, the listing applicant with the assistance of such parties can consider the materiality of a property interest under the various categories referred to in para. 58: for example, (a) (e.g. reporting accountants); (b) (e.g. valuers/legal advisers); (c) (e.g. legal advisers); and (d) (e.g. valuer). We consider it would be inequitable, for example, if this is what the Joint Consultation Document intended, to put the onus on a sponsor alone to determine the ‘redevelopment potential of a property’ (para. 58 (d)) and to assess the financial impact of such redevelopment potential on the applicant’s financial position – when clearly other professional parties, for example valuers and reporting accountants (as well as legal advisers) would be better placed to give input/advice on this point and consequently should be consulted in the first instance and their views taken into account. On the basis of information which a sponsor would become aware of during this interactive process and as part of its broader due diligence enquiries, such sponsor may make further suggestions/requests or raise more enquiries but we consider that, notwithstanding sponsors’ obligations under PN21 (for example, para. 13(l) of PN21) to the Listing Rules, a sponsor should not be regarded as the entity with a parity of responsibility with the directors of the applicant in the aforementioned respect.

Disclosure Guidance section (paras. 60-62)

Under para. 61 of the Disclosure Guidance section, we consider that it may not be practical to stipulate the extensive market analysis envisaged in 61 (a) as a Listing Rule requirement. In major cities of China, some property valuation companies may have some information on supply/demand (including on comparable transactions, where available) and occupancy rates of selective major developments, property yields and sales and rental rates– but this information may vary between markets and not be as detailed or uniform nor be as reliable as that which would be provided by a specialist real estate consulting company if such existed and was based in such cities/market (unless, for example, the relevant property valuation company was itself involved in acting as an agent for the sale or lease of properties in such cities/market and had access to a large database of such information). We suggest that such market analysis only be on a voluntary basis, given the foregoing and also since in minor cities and outlying areas the availability of such information and its accuracy may be open to question (and hence be potentially misleading to investors if included in the listing document).

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.

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.

The definition provided in the consultation document is of property, not property interest. It would be useful if there were additional guidance as to what in the view of the SFC/HKEx comprises a property interest (and what would be excluded from this). Please see comment on question 40 below.

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 – see comment below

No

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

Re 69, (d), in particular, different phases of property projects might have different market values – so arguably they should be treated separately. Suggest the wording in brackets be amended from "(even if there are different phases)" to "(provided they are from the same phase of development)".

For (f), if the buildings, although contiguous to each other, have been built at materially different times, for example, with a difference of 10 years in building age, surely they should not be treated as one property interest. Suggest this sub-item be deleted or amended.

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.

In relation to paragraph 74, it refers to Listing Rule 5.05 which clearly states that "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." This Rule is quite clear and there would not appear to be a need for additional wording to be reflected in the class exemption notice, which can be shortened to cross-refer to the applicable Listing Rules reference.

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.

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.

We consider that it is sufficient to rely on the general disclosure obligation under the Companies Ordinance rather than prescribing detailed statutory requirements in the prospectus law. The main reason is to ensure flexibility – for changes in property valuation disclosure requirements in the light of experience (and new guidelines or standards from professional bodies, such as the HKIS).

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.

Scope of work of property valuation companies

We do not consider it advisable to implicitly require sponsors (who are not, nor have hitherto ever been required to be, qualified as property valuers) to take up the slack on the property interests not valued by the property valuers and to assume that sponsors will be capable of delivering the same expert level of advice on the remaining property of an applicant. Such an approach, if intended, may over time undermine the credibility of the assessment of an applicant's property interests.

We consider that, if the Joint Consultation Document proposals are adopted, in the scope of work for property valuation companies such experts should continue to be responsible for review of all of an applicant's property interests and in the preparation, not only of the full valuation reports, of the properties to be valued but also of the summary disclosure of valuation reports of property interests valued at below 5% of the applicant's total valued property assets and the overview of property assets not valued – for the sponsor to review and comment on. The reason for this suggestion is that, as indicated above, there otherwise might be a potential risk of a significant mismatch in quality, methodology, accuracy and consistency between the expert's report and summary report on the one hand and the overview of non-valued property assets on the other. It would be an added comfort for investors (and regulators, we dare to assume) if the property valuation companies engaged by a listing applicant are involved in the whole process rather than in the selective valuation of particular property assets deemed more significant on the basis of carrying value – particularly, given that the SFC has indicated in the Joint Consultation Document that it considers it unnecessary to include a prescriptive requirement on how to identify the 10% limit under the proposed class exemption notice.

Carrying amount vs market value

We remain concerned in relation to the impact of using carrying amount, as opposed to market value, as a criterion for determining whether a property would be valued under the new requirements. The best snapshot of the value of an issuer's property portfolio at a particular time is its market value as determined by an independent property valuer. Without knowing the market value of the issuer's portfolio, deciding on the basis of carrying value may cause some hidden jewels among an issuer's portfolio to be missed in the screening of such portfolio. Perhaps the regulatory bodies need to weigh further the "unnecessary burden" to issuers of performing valuations on all their property interests against greater transparency to investors.

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.

Please see comment on question 8 above.

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.

Please see comment on question 8 above.

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.

Please see comment on question 8 above.

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.

Please see comment on question 8 above

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.

Please see comments on question 8 above.

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.

Please see comment on question 8 above.

We note that the focus of para. 57 is on appropriate and adequate due diligence to be conducted by sponsors and advisers, 'despite there not being a requirement for an independent valuation' and that there be particular attention as to the legal title. We acknowledge that the substance of this requirement is reflected to a certain extent in para. 13(l) of PN21.

In addition to our previous comment in relation to question 8 above requesting that property valuation companies continue to be involved in the review of all an issuer's property interests (including those not included in their valuation report), we recommend that, if the Joint Consultation Document proposals are adopted, it remain a requirement (or Listing Division practice) that property title opinions by legal advisers contain an opinion on all of a listing applicant's property interests, whether they are valued property interests or exempted property interests.

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

Yes – see comment

No

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

This is at the discretion of the SFC as statutory regulator but is logical for consistency reasons and would make it easier for the SFC to regulate offers of securities by unlisted companies.

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 your 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 – see minor comments (in attached file)

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.

See comment on question 8 above

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.

Please see comment on question 8 above.

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

Yes – see minor comment

No

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

For paragraph 98, after “statement” please insert “by the directors of the issuer”.

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.

Please see previous comments. If the Joint Consultation Document’s proposed changes to the property valuation requirements are adopted, then we agree that all property interests not covered by a valuation report should be disclosed in the form of an overview in the listing document (which should be prepared and signed off by the property valuation company preparing the valuation report). Such overview would be reviewed and commented on by the sponsor prior to sign-off by the relevant property valuation company.

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.

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.

Please see response to question 15.

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 – subject to previous comments

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 – please see minor comments in attached file

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.

Please see response to question 1.

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.

It would be useful to have the independently valued market value of the significant properties of the relevant company disclosed, for the benefit of investors – as often, particularly in relation to PRC companies, there can be a significant discount between the market value and the NAV of the property.

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.

Please see previous comments.

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 – see comment below

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

The concern here relates more to disposals and the scope for potential abuse - under the new requirements it is possible that properties that fall under the radar screen because of low carrying value pursuant to the Joint Consultation Document's proposed requirements may have hidden potential (for example, in the event of a major redevelopment project or re-zoning decision by government, not announced but which may come to the knowledge of certain parties) which may be lost in the event of a sale of such properties to (undisclosed) friendly parties at a low price.

Although this may sound an unlikely scenario, we should like the regulators to reconsider the abolition of a requirement to have valuation reports for property disposals.

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.

See previous comments

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.

See previous comments

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.

Please see response to question 3.

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.

Please see response to question 4.

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.

Please see previous comments

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.

Please see previous comments

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.

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.

If the approach proposed in the Joint Consultation Paper is approved, definitely an overview of property interests not covered in such valuation report should be covered in the circular. Please see our comment on question 21.

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.

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.

In the case of a share swap, it would be useful to know the market value of the significant property assets of the acquiring group (to ensure that they are not being undervalued pursuant to the share swap).

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.

Please see our response to question 5.

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.

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 – see minor comments in attached file

No

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

- End -

APPENDIX IV.A: PROPOSED MAIN BOARD LISTING RULE AMENDMENTS TO PROPERTY VALUATION REQUIREMENTS

Main Board Listing Rule amendments

Chapter 5

GENERAL

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 prospectus after deducting any accumulated depreciation (amortisation) and accumulated impairment losses. For an issuer, the amount at which an asset is recognised in its accounts or latest published interim report (whichever is more recent) after deducting any accumulated depreciation (amortisation) and accumulated impairment losses;
- (2) "property activities" mean holding (directly or indirectly) and/or development of properties for letting and retention as investments, or the purchase or development of properties for subsequent sale, or for retention as investments. It does not include holding of properties for own use;
- (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:

- (a) one or more units in the same building;
- (b) one or more properties located at the same address or lot number;
- (c) one or more properties comprising an integrated facility;
- (d) one or more buildings, structures or facilities comprising a property development project (even if there are different phases);
- (e) one or more properties held for investment in one complex;
- (f) one or more buildings, structures or facilities located contiguously to each other or located on adjoining lots and used for the same or similar operational / business purposes;
or

of development

provided that they

from the same

(g) a project presented as a whole to the public as one 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. For an issuer, total assets has the same meaning as in Chapter 14.

When required

5.01 Valuations of and information on all the issuer's (or, in the case of debt securities, if applicable, the guarantor's) interests in land or buildings ("properties") are required to be included in a listing document issued by a new applicant.

Requirements for an applicant

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

- (a) 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 the its total assets; and
- (b) that do not form part of its 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:

- (a) for property interests of an issuer's property activities:
 - (i) the full text of valuation reports of property interests that are required to be valued except where summary disclosure is allowed; and
 - (ii) 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(a). See Appendix 26 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 available for public inspection;
- (b) for property interests of an issuer's non-property activities:
 - (i) the full text of valuation reports if the carrying amount of a property interest is or is above 15% of its total assets; and
 - (ii) a statement that, except for the property interests in the valuation reports, there is no single property interest that forms part of its non-property activities has a carrying amount of 15% or more of total assets;

- (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; and
- (d) the general information in rule 5.10, if it applies.

5.01C Rules 5.01A and 5.01B 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 by an independent professionally qualified valuer of the Natural Resources.

Requirements for an issuer

5.02 ~~In the case of~~ For an acquisition or realisation of any property, 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 ~~exceeds~~ is or is above 25%, then a valuation of and information on ~~such~~ the property must be included in the circular issued to shareholders in connection with the acquisition or realisation (see rules 14.66(11) and 14.69(3)) ~~unless the interest in the property is acquired from the Hong Kong Government at a public auction or by sealed tender unless rule 5.02A applies.~~ For the purposes of In this rule and in rule 5.03, a circular issued "in connection with an acquisition" includes a listing document issued ~~on for~~ 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, ~~provided that such a~~ The listing document need not contain ~~such a~~ valuation report if a circular containing ~~such a~~ valuation report was issued to shareholders when at the time of the acquisition of the property or company was acquired.

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

- (a) it is acquired from the Hong Kong Government at a public auction or by sealed tender; or
- (b) the company being acquired or disposed of is listed on the Exchange, except if it is a connected transaction; or
- (c) 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) if the circular includes a valuation by an independent professionally qualified valuer of the Natural Resources; or
- (d) 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 The circular must include:

- (a) for a property interest, the full text of valuation reports;
- (b) for an unlisted company whose assets consist solely or mainly of property:
 - (i) 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

(ii) 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 26 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 available for public inspection; and

(but reviewed by the valuer)

(iii) 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;

(c) for a company listed on the Exchange whose assets consist solely or mainly of property, 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; and

(d) the general information in rule 5.10, if it applies.

5.03 ~~In the case of~~ For an acquisition or a realisation of any property interest or of a company whose assets consist solely or mainly of property (including a company listed on the Exchange) from or to a connected person, a valuation of and information on ~~such the~~ property must be included in any circular issued to shareholders in connection with the acquisition or realisation (see rule 14A.59(6)). The circular must include full text of valuation reports and the general information in rule 5.10, if it applies.

Valuation report requirements

Basic contents

5.05 ...

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

(1) a description of each property including:—

...

(k) the options or rights of pre-emption concerning or affecting the property; and

(l) the basis of and approach to valuation for the property interest;

(m) when the site was last inspected;

(n) extent of investigation, 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;
and
- (s) any other matters which may materially affect the value;

...
(9) ...

Note: See Practice Notes 12 and 16

Effective date

5.07 ...

Independence of valuer

5.08 ...

Other reports

5.09 ...

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:

Comment: only to the extent that there is reliable third party analysis of the relevant property market by a recognized or authoritative property research company or government agency available.

(a) a general description of where the property is located (rather than only its address) and some market analysis. [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.]

(b) use and approximate area;

(c) any restrictions on its use;

(d) an indication of how the assets are held. For example, owned or leased. If leased, what is the remaining term;

(e) details of encumbrances, liens, pledges, mortgages against the property;

(f) environmental issues, such as breach of environmental regulations;

(g) details of investigations, notices, pending litigation, breaches of law or title defects;

*Q. What does this mean?
Property searches (by valuer)?*

APPENDIX IV.B: PROPOSED GEM LISTING RULE AMENDMENTS TO PROPERTY VALUATION REQUIREMENTS

GEM Listing Rule amendments

Chapter 8

GENERAL

VALUATION OF AND INFORMATION ON PROPERTIES

Definitions

8.01 In this Chapter: -

- (1) "carrying amount", 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 prospectus after deducting any accumulated depreciation (amortisation) and accumulated impairment losses. For an issuer, the amount at which an asset is recognised in its accounts or latest published interim report (whichever is more recent) after deducting any accumulated depreciation (amortisation) and accumulated impairment losses;
- (2) "property activities" mean holding (directly or indirectly) and/ or development of properties for letting and retention as investments, or the purchase or development of properties for subsequent sale, or for retention as investments. It does not include holding of properties for own use;
- (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;

Q. Any other types of property interests (eg. held by/under trust, option etc.?)

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.

Is whether leasehold or freehold?

A property interest may comprise:

- (a) one or more units in the same building;
- (b) one or more properties located at the same address or lot number;
- (c) one or more properties comprising an integrated facility;
- (d) one or more buildings, structures or facilities comprising a property development project (even if there are different phases);
- (e) one or more properties held for investment in one complex;
- (f) one or more buildings, structures or facilities located contiguously to each other or located on adjoining lots and used for the same or similar operational / business purposes;
or

(provided they)

from the same phase of development

x

(g) a project presented as a whole to the public as one 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. For an issuer, total assets has the same meaning as in Chapter 19.

When required

~~8.01- Valuations of and information on all the interests of the issuer and its group (referred to in this Chapter as the interests of the issuer) in land or buildings ("properties") are required to be included in a listing document issued by a new applicant.~~

Requirements for an applicant

8.01A A listing document issued by an applicant must include valuations of and information on property interests:

- (a) that form part of its property activities (or, for debt securities, the guarantor's) 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
- (b) that do not form part of its property activities if the carrying amount of a property interest is or is above 15% of its total assets.

8.01B The listing document must include:

- (a) for property interests of an issuer's property activities:
 - (i) the full text of valuation reports of property interests that are required to be valued except where summary disclosure is allowed; and
 - (ii) 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 8.01A(a). See Appendix 19 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 available for public inspection;
- (b) for property interests of an issuer's non-property activities:
 - (i) the full text of valuation reports if the carrying amount of a property interest is or is above 15% of its total assets; and
 - (ii) a statement that, except for the property interests in the valuation reports, there is no single property interest that forms part of its non-property activities has a carrying amount of 15% or more of total assets;
- (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; and

- (i) the full text of valuation reports of property interests that are required to be valued under rule 8.02 except where summary disclosure is allowed;
- (ii) 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 valued under rule 8.02. See Appendix 19 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 available for public inspection; and
- (iii) an overview of property interests not covered by a valuation report, including their number and approximate aggregate sizes, uses, how they are held and the general description of the area where they are located;
- (c) for a company listed on the Exchange whose assets consist solely or mainly of property, an overview of property interests not covered by a valuation report, including their number and approximate sizes, uses, how they are held and the general description of the area where they are located; and
- (d) the general information in rule 8.36, if it applies.

(but reviewed by the valuer)

8.03 In the case of For an acquisition or a disposal of any property interest or a company whose assets consist solely or mainly of property (including a company listed on the Exchange) from or to a connected person, a valuation of and information on such the property must be included in any circular issued to shareholders in connection with the acquisition or disposal (see rule 20.59(7)). The circular must include full text of valuation reports and the general information in rule 8.36, if it applies.

Valuation reports requirements

Basic contents

...

8.05 Subject to rule 8.06, aAll valuation reports should normally contain the following information:—

- (1) a description of each property including:—
 - ...
 - (k) the options or rights of pre-emption concerning or affecting the property (if any); and
 - (l) the basis of and approach to valuation for the property interest;
 - (m) when the site was last inspected;
 - (n) extent of investigation, including details of inspection, such as building conditions, availability of building services, etc.;

8.24 Where valuations are required pursuant to ~~rules 8.01, 8.02, 8.03 or 8.27~~ under Chapter 8 of these GEM Listing Rules and where the primary method for valuing the relevant a property is the residual method, the Exchange may require the directors of the issuer or, in the case of a connected transaction, the independent board of directors, to include a statement in a prominent position in the relevant document with respect to the valuation of any property held for investment, development, future development and sale. In such statement the directors/ the independent board of directors, must shall:—

...

...

Notifiable transactions

8.27 ...

(1) ...

(2) may require an independent valuation report, even if such report is not expressly required pursuant to under Chapter 8 rule 8.02; and

(3) ...

...

General disclosure

8.36 The listing document, or a circular under rules 8.02 and 8.03, must disclose relevant information on material properties (including leased properties).

Notes:

Information may include the following:

- SEE COMMENT ON P. 49 CLR 5:10
- (a) a general description of the where the property is located (rather than only its address) and some market analysis. 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.;
 - (b) use and approximate area;
 - (c) any restrictions on its use;
 - (d) an indication of how the assets are held. For example, owned or leased. If leased, what is the remaining term;
 - (e) details of encumbrances, liens, pledges, mortgages against the property;
 - (f) environmental issues, such as breach of environmental regulations;
 - (g) details of investigations, notices, pending litigation, breaches of law or title defects;
 - (h) future plans for construction, renovation, improvement or development of the property and estimated associated costs; and

Please note
comment on Q.40
regarding 19.66(2)
be retained under
certain circumstances -

- (c) [Repealed 1 January 2009]
- (d) information on the enlarged group's property interests under rules 8.01A and 8.01B;
- (2) ~~in respect of a circular issued in relation to~~ for a very substantial acquisition, the information required under rules 19.66 to 19.67 ~~(save except for the information required under rules 19.66(12) and 19.67(6))~~ and rule 2.28;
- (3) ~~a valuation report on the enlarged group's interests in land or buildings in accordance with Chapter 8 [Repealed [date]] ;~~

...

Chapter 20

EQUITY SECURITIES

CONNECTED TRANSACTIONS

...

Specific disclosure in circular

20.59 The circular must contain at least:

...

- (7) information on the property interests (as defined in rule 8.01(3)) under rule 8.03 and an independent valuation if the primary significance of the asset (other than property interests) being acquired or disposed of is its capital value (for example, real property);

...

Chapter 24

EQUITY SECURITIES

OVERSEAS ISSUERS

...

24.09 The following modifications and additional requirements apply:—

...

- (5) ~~in the case of~~ for an introduction in the circumstances ~~set out~~ in rule 10.18(3), the following modifications, exceptions and additional requirements apply:—

...