

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 the 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.

Yes, I agree that the proposed disclosure guidance for material property would provide meaningful/useful information to investors.

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.

Yes it is appropriate, but please also see my minor comments on the draft definition in Attachment 1.

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.

Yes, I generally agreed with the proposed draft definition of "property interest". I noted that you have made reference to the definition of "property" in the HKIS Valuation Standards on Property published by the Hong Kong Institute of Surveyors. However, I think you may also wish to check the definition of "property, plant and equipment" as defined and more particularly described in HKAS 16 issued by the Hong Kong Institute of Certified Public Accountants to make sure that there is no conflict or confusion for the proposed definition of "property interest" in the Listing Rules.

Please also see my comments on Attachment 2.

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.

N/A

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.

Yes, please see my mark up in Attachment 3.

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.

N/A

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.

Yes, for certainty and consistence and ease of comparison among companies, I think the prospectus law should retain requirements for property valuations in line with this paper.

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.

Yes

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.

It was not clear in the Consultation Paper why "1%" threshold should be adopted for not requiring property valuation. The proposal for adopting "1%" threshold is so arbitrary that the proposal is not convincing at all.

In addition, I do not consider it necessary to make the definition of "total assets" for an applicant different from the one for an issuer. I believe the definition should be the same regardless whether it is used for a listing applicant or a listed issuer. Please see Attachment 2.

Based on the classification of notifiable transactions under Chapter 14 of the Listing Rules, I suggest that "5%" threshold may be used for not requiring property valuation. This would make the disclosure requirements in Chapter 5 of the Listing Rules and Chapter 14 of the Listing Rules, to some extent, consistent.

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.

What is the rationale for adopting the "10%" threshold? It is not easy to comment on this "10%" threshold without such supporting information and/or statistics which would convince the public that the "10%" threshold should be adopted.

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.

N/A

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.

It is not clear as to the basis on which the proposed "5%" threshold is determined. I think the Stock Exchange needs to provide data or statistics to allow the public to appreciate the extent to which the proposed "5%" threshold would reduce the bulk of listing documents. Without this quantitative information, I was not able to comment on this question.

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.

I think the format is generally acceptable.

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.

N/A

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

Yes

No

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

N/A

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.

Since the exemption notice is only an indicative draft which is still subject to comments of the Department of Justice, I am not going to comment on this for the time being.

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.

In general, I agree with the proposed amendments. But please also see my comments on the draft amendments as shown in Attachments 1, 2 and 3.

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.

Why adopting "15%" threshold? Please see my answers to Questions 9, 10 and 12.

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.

Except for adopting the "15%" threshold (please see my answer to Question 18), I agree with the calculation method.

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.

Except for adopting the "15%" threshold (please see my answer to Question 18), I find the proposed statement acceptable.

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.

N/A

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.

N/A

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

Yes

No

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

N/A

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

Since the exemption notice is only an indicative draft which is still subject to comments of the Department of Justice, I am not going to comment on this for the time being.

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.

In general, I agree with the proposed amendments. But please also see my comments on the draft amendments as shown in Attachments 1, 2 and 3.

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.

Yes, I agree that the proposed disclosure guidance for material property would provide meaningful/useful information to investors.

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.

N/A

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.

N/A

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.

N/A

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.

N/A

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.

It was not clear in the Consultation Paper why "1%" threshold should be adopted for not requiring property valuation. The proposal for adopting "1%" threshold is so arbitrary that this proposed threshold is not convincing at all.

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.

What is the rationale for adopting the "10%" threshold? It is not easy to comment on this proposed "10%" threshold without such supporting information and/or statistics which would convince the public that the "10%" threshold should be adopted.

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 my answer 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.

N/A

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.

N/A

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 my answer to Question 12.

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.

I think the format is generally acceptable.

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.

N/A

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.

N/A

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.

N/A

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.

N/A

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.

N/A

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.

N/A

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 my mark up on Attachment 2.

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.

N/A

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.

N/A

- 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

or
redevelopment

Vacanted
or with
structure
created
there on

why the definition for "total assets" is different between listing applicants and listed issuers?

(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;

(5) In the opinion of the valuer, the general condition of the properties; and

Attachment 3

- (a) details of encumbrances;
- (r) how the properties are grouped together for each valuation certificate;
~~and~~
- (1b) 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:

- (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's 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;