

Part B Consultation Questions

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

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

Part I: Proposals To Amend Property Valuation Requirements For Applicants

Proposals for all Applicants

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

☒ Yes

☐ No

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

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

☒ Yes

☐ No

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

Although we agree to the proposed definition of property activities, we would like to clarify the wordings as set out in paragraph 65 of the consultation paper. We consider it necessary to clarify whether “holding (directly or indirectly)” should be interpreted consistently with the definitions of applicant and / or issuer under the Listing Rules and includes only subsidiaries as defined under the Listing Rules, but not entities that the issuer cannot control such as jointly controlled entities and associated companies.

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.

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.

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.

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.

We do not have any strong view on this proposal.

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.

No comment.

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.

Whilst we agree to the proposal, we consider it necessary to clarify the definition of "carrying amount". According to the proposed amendments to the Listing Rules, 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. As there is also a possibility that a property interest is acquired subsequent to the latest audit, we consider that the Exchange should address how the carrying amount of a property interest should be determined under this circumstance.

We also suggest that the term "carrying amount" be used consistently in the Listing Rules and the Companies Ordinance, as we note that under the Companies Ordinance, the term "carrying value" is used.

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 also refer to our comment in Question 8 regarding the definition of “carrying amount”.

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 also refer to our comment in Question 8 regarding the definition of “carrying amount”.

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

☒ Yes

☐ No

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

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

☒ Yes

☐ No

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

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

☒ Yes

☐ No

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

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

☒ Yes

☐ No

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

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

☐ Yes

☐ No

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

No comment.

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

☐ Yes

☐ No

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

No comment.

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.

No comment.

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.

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.

We consider it necessary to clarify the wordings of "reflected in the accountants' report". According to the proposed Chapter 5 / Chapter 8 of the Listing Rules, "carrying amount" refers to the amount "recognised" in the most recent audited consolidated balance sheet of the group as disclosed in the prospectus. We are unclear as to whether the same meaning applies, or whether the word "reflected" has a meaning of requiring a detailed breakdown for all the property interests to be disclosed in the accountants' report. Where it is not the intention of the Exchange to include a detailed breakdown of all property interests in the accountants' report, we agree to the above proposal.

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

☒ Yes

☐ No

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

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

☒ Yes

☐ No

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

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

☒ Yes

☐ No

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

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.

No comment.

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

☐ Yes

☐ No

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

No comment.

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.

No comment.

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.

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.

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.

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.

Although we do not intend to object to the proposal, we have the following concerns which need to be clarified.

According to the definition of “carrying amount” as set out in the proposed amended Listing Rules, it is practically infeasible to obtain the “carrying amount” of the property interest which forms the subject of an acquisition given that the property interest is yet to be recognised in the issuer’s most recent audited balance sheet published before the acquisition.

In addition, in the case of an acquisition which constitutes a major transaction or a very substantial transaction, where the consideration given by the issuer is significantly higher than the carrying amount of the acquired property interest, shareholders’ interests may not be protected if a property valuation is not required. This concern may be addressed by the suggestion in our reply to Question 31.

In respect of disposal, our comment regarding the definition of “carrying amount” as set out in Question 8 applies. Since the carrying amount refers to the amount recognised in the most recent audited consolidated balance sheet, concern could be raised under an extreme situation where the property interest being disposed of was acquired subsequent to the most recent audit. Under such circumstance, we are not sure how the “carrying amount” should be determined.

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.

Please refer to the comments stated in Question 30.

With the fundamental rationale of enhancing the quality of information provided to the issuers’ shareholders for their informed decision making, valuation of the property interests should be disclosed in order to protect the shareholders. However, if numerous properties are held by the target (as opposed to a single property or a few properties), it may be too onerous to require valuation of all the properties including the insignificant ones.

In determining insignificance, we consider that it may be more appropriate to make reference to the target’s total assets (which consist solely or mainly of property interests) instead of the issuer’s total assets.

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.

Please refer to all the comments stated in Questions 30 and 31.

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

☒ Yes

☐ No

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

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

☒ Yes

☐ No

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

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

☒ Yes

☐ No

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

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

☒ Yes

☐ No

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

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.

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.

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.

We wish to clarify that the 1% and 10% thresholds mentioned in paragraphs 117 to 118 do not apply to connected transactions, i.e., valuation must be performed on all property interests in a connected transaction. Whilst the proposed Rule 5.03/ 8.03 suggests so, there is inconsistency in the proposed Rule 5.02A(b) / 8.02A(b) and 5.02A(d) / 8.02A(d) as the condition "except if it is a connected transaction" in the proposed Rule 5.02A(b) / 8.02A(b) is not included in the proposed 5.02A(d) / 8.02A(d).

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.

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

☒ No

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

We consider that the following issues be clarified in the proposed Listing Rules amendments in Appendix IV.A and IV.B of the consultation paper:

- 1. Please refer to our comments in Question 8 regarding the definition of “carrying amount”.***
- 2. Please refer to our comments in Question 41 in relation to a connected transaction.***
- 3. We are not sure whether the proposed rule amendment has included the proposal mentioned in paragraph 82(c) and 88 of the consultation paper about an overview of property interests not valued.***
- 4. All the above comments apply to the proposed amendments to both the Main Board Listing Rule and the GEM Listing Rule, i.e. Appendix IV.A and IV.B.***

- End -