CPA
Hong Kong Institute of
Certified Public Accountants
香港會計師公會

By e-mail (PropertyValuation@sfc.hk) and by post

23 February 2011

Our Ref.: C/CFC, M75771

Corporate Finance Division
Securities and Futures Commission
8/F., Chater House
8 Connaught Road Central
Hong Kong

Dear Sirs,

**Joint SFC/HKEx Consultation Paper on
Proposed Changes to Property Valuation Requirements**

The Hong Kong Institute of Certified Public Accountants ("the Institute") has considered the above consultation paper, which seeks views on proposals to streamline the Listing Rule requirements for property valuation disclosure.

Generally speaking, the proposals in the consultation paper, if implemented, will remove unnecessarily onerous property valuation requirements on listing applicants and listed issuers, while ensuring the disclosure of more relevant and useful information to investors. The Institute, however, considers that, to avoid any confusion or uncertainty, there should be a clear understanding of the revised disclosure obligations. Therefore, reasonably detailed guidelines need to be provided by the Stock Exchange.

Disclosure of material property interests

It is stated in paragraph 56 of the consultation paper that:

"*An applicant must disclose information on its material (emphasis added) property interests … applicants and sponsors to consider materiality in light of all the relevant circumstances …* ".

It is noted that materiality guidance is provided under paragraphs 58 and 59 of the consultation paper, which states that the following factors may have to be taken into account in considering whether a property interest is material or not:

58(a) *whether the property interest … contributes a significant portion of revenue …;*

58(b) *whether there are any encumbrances … directly or indirectly impact the operations …;*

58(c) *whether there are any defects … may have major impact on the applicant's business or operations …;*

58(d) *whether there is re-development potential … may impact the applicant's financial position.*

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We are of the view that the materiality guidance, as it is currently drafted, is somewhat too broadbrush. The tests of materiality referred to above, i.e., "significant portion", "directly or indirectly impact", "major impact" and "impact", are all based on subjective judgment, which could result in inconsistencies in implementation. We would suggest that more specific, possibly quantitative, benchmarks be adopted. For example, reference could be drawn from the relevant percentage ratios for classification of transaction types in chapter 14 of the listing rules, to indicate what should be considered to be "significant" or "major".

Turning to the disclosure guidance, set out under paragraph 61 of the consultation paper, which is to be included as notes to rule 5.10 of the main board listing rules and rule 8.36 of the GEM listing rules. While it is helpful to have such guidance, the extent of information and nature of some of the information expected to be disclosed about a material property is still potentially quite onerous, even though a valuation report may no longer be required in some cases. For example, it is not clear what level of detail is expected to be disclosed in relation to "any restrictions on its use", "details of encumbrances, liens pledges, mortgages against the property" and "details of investigations, notices, pending litigation, breaches of law or title defects". While it may be reasonable to expect disclosure of some information about these matters, it may be burdensome to have to comment on all the finer legal points. In our view, it should be made clear that a question of materiality also applies to the general disclosure obligation in respect of material properties.

Additionally, the guidance in relation to market analysis information seems to go beyond the merely factual, by expecting the issuer to comment on "trends in property yield, sales prices, rental rates, etc". Unless an issuer is extensively involved in the property business, it seems questionable whether the issuer should be expected to provide this sort of information and, indeed, whether it would be in a position to provide any authoritative information in this regard. We would suggest that this aspect of the proposed disclosure guidance be looked at again and that specific information referred in the guidance be limited to factual information about the particular property interests and, possibly, some readily available market data or statistics.

We hope that you find our comments to be helpful. Should you have any questions on this submission, please feel free to contact [redacted].

Yours faithfully,

[redacted]

[redacted]

Hong Kong Institute of Certified Public Accountants

PMT/ML

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