

Ref: 001 Eastling

February 1, 2011

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

**Re: Joint Consultation Paper on Proposed Changes to Property Valuation Requirements
("Consultation Paper")**

Dear Sirs:

In response to the SFC and Exchange invitation for expression of views on the Consultation Paper, we respectfully hereby submit in the attachment our answers to the relevant Questionnaire.

While we support the objectives of the SFC and Exchange as outlined in the Consultation Paper, we strongly believe that the requirements in the Companies Ordinance related to valuation of property and business interests owned by listing applicants and performed by independent and qualified valuers are relevant and important elements in maintaining public trust. They provide necessary disclosure in the case of both property and non-property listing applicants and should therefore remain included as required information for the listing documentation. This is particularly important for listings of companies from emerging markets and for applicants representing industries that are relatively new to the securities market such as Hong Kong.

The Hong Kong Exchange has been one of the world's most successful exchanges in recent years and should remain a leading proponent of transparency and disclosure. As the fundamental purpose of the offering prospectus is to fully inform the investors and ensure that they are not misled, we are of the view that the omission of an independent property or business interest valuation can limit the information and be possibly detrimental to investors

As to the proposals contained in the Consultation Paper, we wish to highlight our concerns regarding two specific items. The first item pertains to the use of the accounting concept of "carrying amount" in determining the total asset threshold. As a recognized international valuation firm, we find this accounting concept an inappropriate measure for determining whether or not a property is material (Q. 9, 10, 18, & 19.) The "carry amount" does not take into consideration changes in market conditions, potentially misrepresenting the true value of a property or business. Market valuations should be the appropriate threshold for property assets, if such thresholds are required.



Another item concerns the exclusion of the property valuation for mining companies in lieu of a valuation report by a "qualified valuer" of the associated mineral or petroleum resources. We believe this issue requires additional consideration given indivisible unity of resource and reserve assets and property assets, i.e. expenditures related to development of deposits and beneficiation. An impartial consideration of property is important for companies to provide investors with an accurate and complete investment disclosure.

We propose the continued judicial and prudent use of property valuation waivers by the Exchange on a case by case basis provides sufficient relief for qualified issuers as well as maintaining the full disclosure mandated under the Companies Ordinances.

We will be most pleased for the opportunity to meet with the Exchange to further explain our positions and offer any assistance. Your consideration in this matter is deeply appreciated.

Yours faithfully,

A handwritten signature in black ink that reads "American Appraisal". The script is fluid and cursive, with the first letters of the words being capitalized and prominent.

American Appraisal China Limited

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.

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.

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.

Retaining property valuation requirements provides consistency with previous disclosure requirements and better facilitates informed judgement on Applicant Company by investors.

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.

We would propose that the market value is used to determine the threshold instead of the carrying amount. Our reasoning is that if the listing company's core business is related to property activities, it is necessary to disclose the true market value of ALL properties to the public as the property value to a large extent represents the overall value of the company (after deducting the debt). This can be critical information required for an investor to make an informed investment decision.
Moreover, if property holder has 100 properties or more of approximately the same size and value, a cut-off of 1% will result in no single property being valued.

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.

As stated in Question #8 above, our position is that the carrying amount is not an appropriate measure to determine whether property valuation is required - carrying amount is an accounting concept which does not take into account the change of the market condition. The true value of a property can be far higher or substantially lower than its carrying amount. Moreover, if property holder has 100 properties or more of about the same size and value, such cut-off will result in no single property being valued.

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.

As previously stated in above Questions #8 & #9, our position is that the carrying amount is not an appropriate measure.

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.

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.

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.

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.

In addition to our previously stated position that the carrying amount should not be applied as an appropriate threshold measure, please note the following points in regard to the necessity of including the full text of the valuation report:

- As property is one of the assets owned by the Company, the true value of such an asset should be assessed and fully disclosed to the public for making investment decisions. Property is considered as the key asset among the tangible/fixed assets. Its value is especially important under a worse-case scenario, e.g. bankruptcy where the company's equity or other intangible assets become worthless. This is relevant information to be disclosed for investors to make an investment decision.
- As property is essential for the normal operation of the business, especially for a manufacturing company, it is important to understand the property title and conditions are sufficient for continuity of business operations. The property valuation includes due diligence to ensure the property title and conditions are confirmed in the valuation process and disclosed in the valuation report. In the property due diligent process, the property valuer takes the leading role in coordinating with the legal adviser and Listing Applicant to provide the relevant opinions, information and proper disclosure in the listing document.
- The non-property activities companies own and operative can comprise very significant real property and related fixed assets, for which holding a proper title to the property may be critical. Disclosure of and understanding the nature and value of such assets can be particularly relevant to individual investors.

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 do not agree that the 15% threshold should be calculated by either (a) nor (b). As previously stated, we do not believe the carrying amount should be used as an appropriate threshold measure. Neither do we believe a percentage of total assets is a relevant metric. Market value should be used, if a threshold is required.

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.

A similar statement would be more appropriate, i.e. one that provides assurance that all crucial assets were identified and confirmed in terms of property title and value.

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.

- A qualified valuer of the associated mineral or petroleum assets is not an expert in property valuations. In the report by such an entity, there may be description of the property in use but the true market value of the property is not reflected and the property title is not examined in conjunction with a legal adviser. The focus and expertise of the qualified valuer and property valuer are completely different. Therefore, full and proper disclosure via a property valuation should be included in the prospectus in addition to the relevant valuation of associated mineral or petroleum assets or resources by a qualified valuer.
- A clarification may be required to specify what qualifies as property interests ancillary to mining activities for the purposes of valuation. Metals and petroleum refining, as well transportation and marketing properties, may be significant for vertically integrated extractive industries companies.

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.

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.

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.

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.

- As property is one of the assets owned by the company, the true value of such asset should be assessed and disclosed to the public for making investment decisions. Property is considered as the key asset among the tangible/fixed assets. Its value is especially important under worse-case scenario, e.g. bankruptcy where the company equity or other intangible assets become worthless. This is relevant information for disclosure to investors to assist in their investment decisions.
- As property is essential for the normal operation of the business, especially for manufacturing companies, it is important to confirm and disclose the property title and conditions are appropriate and sufficient for continuity of business operations. The property valuation includes due diligence to ensure the property title and conditions are confirmed in the valuation process and disclosed in the valuation report. In this property due diligent process, the property valuer takes the leading role in coordinating with the legal adviser and Listing Applicant to provide the relevant opinions, information and proper disclosure in the listing document.

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.

As previously stated, we do not believe carrying amount is an appropriate measure for determining a threshold.

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.

As previously stated, we do not believe carrying amount is an appropriate measure for determining a threshold.

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.

As previously stated, we do not believe carrying amount is an appropriate measure for determining a threshold.

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.

Please refer to the answer provided to Question #22 above.

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.

Market value of all existing properties should be fully disclosed to investors to enable an informed judgement.

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.

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.

- End -