

JOINT CONSULTATION CONCLUSIONS
ON
PROPOSED CHANGES TO
PROPERTY VALUATION REQUIREMENTS

20 October 2011



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EXECUTIVE SUMMARY

1. This paper presents the results of the Joint Consultation Paper on Proposed Changes to Property Valuation Requirements.
2. Our proposals were well-received by the market. Having considered the responses, we decided to implement the proposals with the amendments identified in Chapters 2 to 5.
3. The SFC and the Exchange have revised the class exemption notice and the Listing Rules based on the comments received. The revised class exemption notice forms Appendix I. The Listing Rule amendments form Appendices II.A and II.B.
4. The class exemption notice will, subject to negative vetting by the Legislative Council, come into effect on 1 January 2012. The Listing Rule amendments will take effect when the class exemption notice becomes effective. The Listing Rule amendments have been approved by the respective Boards of the Exchange and the SFC.
5. Before the class exemption notice and the Listing Rule amendments become effective, an applicant may apply for a waiver from strict compliance of the property valuation requirements under the Companies Ordinance and the Listing Rules. The SFC and the Exchange will consider waiver applications on a case-by-case basis.

CHAPTER 1: INTRODUCTION

6. On 3 December 2010, The Securities and Futures Commission (“SFC”) and The Stock Exchange of Hong Kong Limited (“Exchange”), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (“HKEx”), published a Joint Consultation Paper on Proposed Changes to Property Valuation Requirements (“Consultation Paper” or “CP”). The Consultation Paper sought comments on proposals to streamline property valuation requirements under the Companies Ordinance and Listing Rules.
7. The consultation period ended on 11 February 2011. The SFC and the Exchange received 52 submissions from market practitioners, issuers, professional associations, and individuals. A list of respondents is in Appendix III. The full text of all submissions is available on the SFC website at <https://www.sfc.hk/sfcConsultation/EN/sfcConsultCommentServlet?name=PropertyValuation> and HKEx website at <http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/cp201012r.htm>.
8. In addition to the written responses, we have also discussed certain aspects of the Consultation Paper with industry representatives. Our responses are based on both the submissions received and comments from industry representatives.
9. Most respondents supported the proposals in the Consultation Paper. Chapters 2 to 5 summarise the major comments and our responses.
10. The SFC and the Exchange have revised the class exemption notice and the Listing Rules based on the comments received. The revised class exemption notice forms Appendix I. The Listing Rule amendments form Appendices II.A and II.B.
11. The class exemption notice will, subject to negative vetting by the Legislative Council, come into effect on 1 January 2012. The Listing Rules will take effect when the class exemption notice becomes effective. The Listing Rule amendments have been approved by the respective Boards of the Exchange and the SFC.
12. Before the class exemption notice and the Listing Rule amendments becomes effective, an applicant may apply for a waiver from strict compliance of the property valuation requirements under the Companies Ordinance and the Listing Rules. The SFC and the Exchange will consider waiver applications on a case-by-case basis.
13. We would like to thank all those who shared their views with us during the consultation process.
14. This paper should be read in conjunction with the Consultation Paper, which is posted on the SFC and HKEx websites. Listing Rules references in this paper are to the Main Board Listing Rules. Our responses also apply to the corresponding GEM Listing Rules.

CHAPTER 2: RESPONSES TO COMMENTS RECEIVED ON PROPOSALS FOR ALL APPLICANTS

General comments

15. One respondent would like to clarify the difference between a “property company” and a “property activity” in our proposals for applicants. Another respondent sought clarification on whether the proposals refer to companies which may have both property activities and non-property activities.
16. One respondent considered that the proposals will increase the burden on sponsors. The respondent considered that the proposals implicitly require sponsors to assume responsibility for property interests not valued by valuers and assume that sponsors will deliver the same expert level of advice. The proposals also have implications for the role of valuers and the level of transparency as the quality and accuracy of information may be affected.

Our responses

17. A company may engage in different business activities and depending on the business activities, a property may be used for different purposes. We consider that an applicant should consider each property’s use. If the property is for letting or sale, then it would be categorised as a property used for “property activities”. In this case, the proposals in Chapter 4 of the Consultation Paper apply. The proposals in Chapter 5 of the Consultation Paper apply to property interests that do not fall under the definition of “property activities”.
18. The proposals aim to address issues identified in CP paragraphs 46 to 49, namely (i) valuations of immaterial property interests; (ii) valuations if property development and investment is not the core business; and (iii) valuations of properties held under operating leases. We consider that valuation information may not be meaningful for investors to make an informed decision in these situations. The proposals also move our property valuation requirements closer to international practice¹.
19. Notwithstanding the specific property valuation requirements and disclosure obligations specified in the class exemption notice and the Listing Rules, there is a general disclosure obligation in the Companies Ordinance² and the Listing Rules³ which requires a prospectus to contain sufficient particulars and information that is necessary to enable an investor to make an informed judgement of an applicant. The general obligation may require the inclusion of more information than is specified in the class exemption notice and the Listing Rules. As applicants must comply with the general disclosure obligation under the Companies Ordinance in any circumstances, it is not necessary to repeat such requirement in the class exemption notice.
20. CP paragraphs 58 to 62 aim to give guidance to applicants on the general disclosure obligation. Investors would benefit from disclosure of relevant and material information whereas requiring valuation reports for all property interests may result in

¹ Please see CP paragraphs 51, 110, Appendices I.A and I.B for property valuation requirements in various jurisdictions.

² Paragraph 3 of the Third Schedule to the Companies Ordinance, “Matters to be specified in prospectus and reports to be set out therein”.

³ See Main Board Listing Rule 11.07.

pertinent information on material property interests being buried. We do not consider that the proposals decrease the level of transparency.

21. The proposals are not intended to increase sponsors' burdens. Currently sponsors have due diligence obligations under Practice Note 21 of the Listing Rules ("PN 21") whether property valuations are required or not. If property valuations are not required, an applicant may engage professionals and advisers for due diligence, advice and verification of information in the listing document.

Disclosure of material property interests (paragraphs 58 to 62 of the Consultation Paper)

22. We sought comments on the disclosure guidance for material property interests. (*Consultation question 1*)

Comments received

23. A majority of respondents supported the proposed disclosure guidance. Most respondents that commented did not object to the disclosure guidance in principle but suggested that it could be modified by:
 - (a) giving specific guidelines and indicating the level of disclosure details for each item in CP paragraph 61;
 - (b) removing CP paragraphs 61(f)⁴ and 61(g)⁵ because they are immaterial and burdensome;
 - (c) removing CP paragraph 61(h)⁶ because of uncertainty of future plans or the disclosure is immaterial;
 - (d) adding plans to dispose of, or change the use of a property interest;
 - (e) clarifying that the market analysis under CP paragraph 61(a) relates to properties held for sale or investment; and
 - (f) using the term "material" instead of "significant" or "important" as it has a more established meaning under common law.
24. A group of respondents considered that information proposed under the disclosure guidance can only be given by valuers, so should be a property valuation report requirement.
25. Some respondents considered that disclosure of market analysis under CP paragraph 61(a) may be overly burdensome as information may be unavailable or unreliable in certain markets. One respondent suggested that the disclosure be on a voluntary basis.
26. One respondent suggested relaxing the disclosure requirements for leased properties.

⁴ CP paragraph 61(f) states: environmental issues, such as breach of environmental regulations.

⁵ CP paragraph 61(g) states: details of investigations, notices, pending litigation, breaches of law or title defects.

⁶ CP paragraph 61(h) states: future plans for construction, renovation, improvement or development of the property and estimated associated costs.

27. There were also comments on the materiality guidance in CP paragraph 58. One respondent considered that the onus to determine materiality should not be on the sponsors. It also suggested a process that applicants may adopt for identifying material property interests.
28. Some considered that the materiality guidance is too broad and subjective and suggested that a percentage figure be given to the term “significant”. There were suggestions to remove CP paragraphs 58(b)⁷ and (c)⁸ on the grounds that they are repeated in CP paragraphs 61(e) to (g).

Our responses

29. For the comment in paragraph 23(a), CP paragraph 61 and the note to the proposed Rule 5.10 include information that may be disclosed and is for guidance only. Under the general disclosure obligation, applicants must disclose meaningful information for investors to make an informed decision. The information to be disclosed must be based on the particular facts and circumstances. We do not consider it appropriate to give additional guidelines or set out in detail what should be disclosed.
30. For the comment in paragraph 23(b), environmental issues, breaches of law or title defects may affect the use of a property. If the property is material, disruption of its use may affect the applicant’s operations and financial position. So matters in CP paragraphs 61(f) and (g) may be material information for investors. We do not consider this requirement overly burdensome or immaterial.
31. For the comment in paragraph 23(c), plans for construction, improvement or development of a material property may be material information for investors to make an informed decision on the applicant’s prospects. Plans to be disclosed would be those made with reference to the listing document date (see our responses to question 2). We do not consider that there are any practical difficulties in disclosing such information.
32. We agree with the comments in paragraphs 23(d) to (f) and we will revise the Listing Rules.
33. For the comment in paragraph 24, as mentioned in CP paragraph 57, it is important that sponsors conduct due diligence. An applicant may also engage advisers (which may include lawyers, accountants, valuers) for due diligence, advice and verification of information. It is unnecessary for information on material property interests to be in property valuation reports.
34. For the comment in paragraph 25, CP paragraph 61(a) suggested that some market analysis be disclosed followed by some examples. The examples are suggestions and applicants may disclose the information that they consider appropriate. We do not consider it necessary to add that the disclosure is voluntary. We consider market analysis is important information for properties held for sale or investment.
35. Leased properties may be material as an applicant may own or lease a property for its operations. Under current accounting standards, rental payments under operating

⁷ CP paragraph 58(b) states: whether there are any encumbrances on the property or use of the property that may, at any time, directly or indirectly impact the operations of the applicant’s reportable segment.

⁸ CP paragraph 58(c) states: whether there are any defects relating to the property or its operations that may have major impact on the applicant’s business or operations. For example, breach environmental regulations or title defects.

leases from a lessee's view point are normally recognised as expenses and the carrying amount in the balance sheet is zero. So, valuations will not be required for operating leases. However, descriptive disclosure will be required if the operating lease is a material property interest. Operating leases that are not material property interests will be required to be disclosed in the overview (see paragraphs 119 to 125 and paragraphs 148 to 151). We consider the proposals strike a balance between giving relevant information to investors and not overburdening applicants. We do not agree the disclosure requirements should be further relaxed.

36. CP paragraph 58 contains materiality guidance, which is for reference only and is not in the class exemption notice or the Listing Rules. CP paragraph 56 states that an applicant must include information on its material property interests in the listing document. We expect the applicant and sponsor to consider materiality based on relevant facts and circumstances. It is not our intention that the onus to determine materiality lies solely on the sponsor. The CP emphasised the importance of sponsor's due diligence, which is consistent with PN 21. Applicants may adopt processes that they consider appropriate to determine materiality. We do not consider that the class exemption notice and Listing Rules should prescribe procedural matters.
37. We do not consider it appropriate to quantify the term "significant" in CP paragraph 58(a). Materiality has to be considered in the light of all circumstances and facts. Applicants, based on the advice of their advisers, must carefully consider how the information could influence investors' decision.
38. Although CP paragraphs 58(b) and (c) and CP paragraphs 61(e) to (g) refer to encumbrances and breaches of law or title defects, we do not consider CP paragraphs 58(b) and (c) redundant. CP paragraph 58 emphasises the impact rather than disclosure. Once the impact of a problem is considered material to the applicant, corresponding disclosure must be made.
39. We will adopt the proposed disclosure guidance in the CP and will revise the wording as discussed in paragraph 32.

Definition of property activities (paragraph 65 of the Consultation Paper)

40. We sought comments on the definition of property activities. (*Consultation question 2*)

Comments received

41. An overwhelming majority of respondents supported the proposed definition of property activities. Most that gave comments did not object in principle. Comments included:
 - (a) clarifying whether "holding (directly or indirectly)" means holding by the applicant or its subsidiaries, or whether it includes entities that the applicant has no control of such as associated companies and jointly controlled entities;
 - (b) deeming properties bought for own use as "property activities" because it may be possible that the purchaser applicant is avoiding capital gains;
 - (c) clarifying the timing reference point for ascertaining the purpose of holding or purchasing the property; and

- (d) including holding properties like hotels, theme parks, container terminals and other properties which contribute to material revenue to the owner through operation of them.
42. One respondent objected to the definition as there will be extra burden on applicants and professional parties to categorise a property as those used in property activities or non-property activities.

Our responses

43. For the comment in paragraph 41(a), “holding (directly or indirectly)” includes property interests that are recognised in the consolidated balance sheet of the applicant. For jointly controlled entity of an applicant, whether the property interests held by the jointly controlled entity are recognised in the consolidated balance sheet of the applicant depends on the accounting treatment adopted by the applicant. We will clarify this in the FAQs to the Listing Rules.
44. For the comment in paragraph 41(b), we disagree that a property bought for own use should be deemed as property activities. The possibility that the property may be sold later is irrelevant. The question is what its purpose is at the relevant time.
45. For the comment in paragraph 41(c), we agree with clarifying the timing reference point. We consider that the timing reference point for categorising a property interest into property activities or non-property activities should be the listing document date. We will revise the class exemption notice and add a note to the Listing Rules to clarify this.
46. For the comment in paragraph 41(d), we disagree with defining property activities by considering how much revenue is generated by operating the properties. For these activities, we consider that business valuations would give more relevant information to investors.
47. A property that does not fall within the definition of property activities is considered non-property activities, for instance, retail outlets occupied by an applicant for its operations are non-property activities. We will add a note to clarify this in the proposed Listing Rules. We do not consider that the definition will impose extra burdens on applicants and professional parties.
48. We will adopt the proposed definition. We will:
- (a) clarify that “holding (directly or indirectly)” includes property interests that are recognised in the consolidated balance sheet of the applicant in the Listing Rules FAQs;
 - (b) revise the class exemption notice and add a note to the proposed Listing Rules to clarify the timing reference; and
 - (c) add a note to the proposed Listing Rules that a property that does not fall under the definition of property activities is considered non-property activities.

Definition of property interests (paragraph 67 of the Consultation Paper)

49. We sought comments on the definition of property interests. (*Consultation question 3*)

Comments received

50. An overwhelming majority of respondents agreed to the proposed definition. Respondents that commented did not object to the definition in principle.

51. A group of respondents suggested the definition should exclude properties occupied for a single special purpose (e.g. antenna sites for mobile phone companies, pipelines for an oil and gas company etc.).

52. One respondent commented that fittings and fixtures are irrelevant for properties used for property activities as it is more common to value them using the income approach.

53. One respondent considered that an interest in property should include indirect interests such as options or pre-emptive rights to purchase properties.

Our responses

54. We understand that the current property valuation requirements may be overly burdensome for property interests in paragraph 51. Antenna sites or the land over which oil or gas pipelines run are not normally owned by the applicants. So under the proposals, valuations of these property interests would normally not be required because they would not have any carrying value. We do not consider it necessary to specifically carve out these property interests.

55. We consider fittings and fixtures to be part of a property interest. It will be difficult in practice to carve them out. The definition should not affect the valuation of a property interest regardless of which valuation method is used.

56. Whether indirect rights in properties such as options or pre-emptive rights to purchase properties are property interests is a question of law.

57. We will adopt the proposed definition.

Guidance on what constitute a property interest (paragraph 69 of the Consultation Paper)

58. We sought comments on the guidance on what should be treated as a single property interest. (*Consultation question 4*)

Comments received

59. We received overwhelming support for the proposed guidance. The respondents that commented did not object to the guidance in principle. A few suggested that CP paragraph 69(g)⁹ should be modified by:

⁹ CP paragraph 69(g) states: project presented as a whole to the public as one project or forming a single operating entity.

- (a) considering how third parties may view and associate the properties, for example projects using the same or similar names; and
 - (b) adding conditions, such as requiring the project to be in one location.
60. Two respondents suggested clarifying or removing CP paragraph 69(c)¹⁰ as it is unclear.
61. One respondent commented that for CP paragraphs 69(d)¹¹ and (f)¹², buildings built at different times should be treated separately as they may have different market values.
62. There are also minor drafting comments that suggested using the term “properties” instead of “buildings” in CP paragraphs 69(d) and (f).

Our responses

63. For the comment in paragraph 59(a), a developer decides how it wants the public to view a project. This can be achieved by using the same name or same words in their name. We consider that the guidance in CP paragraph 69(g) and the respondent's suggestion would not make a difference in practice when determining whether a development should be considered as a property interest.
64. For the comment in paragraph 59(b), CP paragraph 69 gives guidance on what may comprise a property interest. They are examples and are not exhaustive. The respondents' suggestions may be factors to take into account when considering what constitute a property interest. Each case has to be considered based on its facts. We consider paragraph 69(g) of the Consultation Paper to be appropriate guidance.
65. For the comment in paragraph 60, this refers to ancillary buildings or structures to form an integrated facility to support the operation of a business. An example of integrated facility may be several buildings or functional areas forming a power plant. We will not remove this.
66. For the comment in paragraph 61, the carrying amount must be used to calculate the thresholds under the proposals, not market value. We do not consider that there is any issue with ascertaining the carrying amount of buildings built in different phases. The carrying amount used should be as at the latest audited consolidated balance sheet. Please also see response in paragraph 104.
67. We agree with the drafting comments in paragraph 62.
68. We will adopt the proposed guidance, amended for the drafting comments.

¹⁰ CP paragraph 69(c) states: one or more properties comprising an integrated facility.

¹¹ CP paragraph 69(d) states: one or more buildings, structures or facilities comprising a property development project (even if there are different phases).

¹² CP paragraph 69(f) states: one or more buildings, structures or facilities located contiguous to each other or located on adjoining lots and used for the same or similar operational / business purpose.

Contents of valuation reports (paragraph 74 of the Consultation Paper)

69. We asked if there is any other information not required at present by the Listing Rules or if there is any information that is no longer required to be disclosed in a valuation report. (*Consultation question 5*)

Comments received

70. An overwhelming majority of respondents did not consider that there is any other information not required at present by the Listing Rules or any information that is no longer required to be disclosed in a valuation report.
71. One respondent suggested including unit rents, yields and discount rates used, and the names and the qualifications of the persons who carried out the site inspection. Another respondent suggested requiring the disclosure requirements in the HKIS Property Valuations Standards.
72. One respondent suggested that information on whether there are any defects in breach of government rules and regulations should be disclosed.
73. One respondent suggested that plain language be used for CP paragraph 74(c), which relates to the extent of investigation.

Our responses

74. Rule 5.05 already requires valuation reports to contain all material details of the basis of valuations which must follow the HKIS Property Valuation Standards and International Valuation Standards. Rule 5.06(7) requires the name, address and professional qualification of the valuer be contained in a valuation report. Rule 5.08(2) provides for a valuer's qualification. However, we consider there is merit in adding the names and the qualifications of the persons who carried out the site inspection because this will add credibility to the valuation reports.
75. For the comment in paragraph 72, breaches of law would be disclosed under the general disclosure obligation. This has been included in the disclosure guidance in CP paragraph 61(g).
76. A listing document is for investors' information and should be in plain language. We do not think it is necessary to take up the comment in paragraph 73. However, for clarity, we will replace "extent of investigation" with "summary of investigation carried out".
77. We will adopt the proposed contents of valuation reports in the class exemption notice and the Listing Rules, amended for paragraphs 74 and 76.

Effective date for valuation (paragraphs 76 - 78 of the Consultation Paper)

78. We proposed 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. (*Consultation question 6*)

Comments received

79. An overwhelming majority of respondents agreed.
80. Two respondents commented that if there has been no material change to the property valuation since the accounts date, the applicant should not be required to conduct the exercise again. The position may be confirmed by a "no material change" statement by the applicant in the listing document.

Our responses

81. We understand from our discussion with industry representatives that valuers normally conduct valuations again in order to issue a no material change statement. We believe that the time and cost spent do not justify the approach of issuing a no material change statement.
82. We have not received comments that the 3-month effective date is unduly burdensome on valuers and applicants¹³. As the property market may be volatile, we consider that the information will benefit investors without imposing an unnecessary burden on applicants and valuers.
83. We will maintain the effective date at which the property was valued at not more than 3 months before the date of the listing document.

The prospectus law (paragraph 81 of the Consultation Paper)

84. The SFC asked whether the prospectus law should retain requirements for property valuations in line with the proposals in the Consultation Paper or whether it is sufficient for the prospectus law to rely on the general disclosure obligation under the Companies Ordinance. (*Consultation question 7*)

Comments received

85. A majority of the respondents considered that the prospectus law should be in line with the proposals in the Consultation Paper for clarity.
86. A group of respondents considered that it is sufficient to rely on the general disclosure obligation under the Companies Ordinance.
87. Two respondents considered that the property valuation requirement should not be prescribed in the prospectus law in order to bring the prospectus law in line with the position of comparable overseas jurisdictions.

¹³ We have received a comment from an issuer that the 3-month effective date is unduly burdensome in one of its acquisitions. Please see comments received for question 45.

SFC's response

88. With respect to whether the prospectus law should retain requirements for property valuations in line with the proposals in the Consultation Paper, the SFC will consider as part of the Companies Ordinance Phase 3 law reform exercise¹⁴ whether it is sufficient to rely on the general disclosure obligation under the Companies Ordinance. A consultation paper on the Companies Ordinance Phase 3 law reform will be published in due course.

¹⁴ See "Consultation Paper on Possible Reforms to the Prospectus Regime in the Companies Ordinance" and "Consultation Conclusions on the Possible Reforms to the Prospectus Regime in the Companies Ordinance" published by the SFC in August 2005 and September 2006, respectively on the SFC's website: www.sfc.hk.

CHAPTER 3: RESPONSES TO COMMENTS RECEIVED ON PROPOSALS FOR PROPERTY ACTIVITIES

Valuation reports for all property interests except those with carrying amount below 1% of the applicant's total assets (paragraphs 83 – 85 of the Consultation Paper)

89. We proposed 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 1% of its total assets. (*Consultation questions 8 and 9*)
90. We proposed that the total carrying amount of property interests that do not require valuation cannot exceed 10% of the applicant's total assets. (*Consultation question 10*)

Comments received

91. A majority of the respondents supported the proposals. The main objection for those that opposed them is the use of the carrying amount to calculate the percentage below which valuation is not required. This is because the property market is volatile and the carrying amount does not reflect the market value of a property. If an applicant's core operation is property activities, it is necessary to disclose the market value of all properties (but not necessarily the full text of valuation reports). Otherwise, the disclosure may be misleading.
92. A group of respondents considered that in cases such as a development site with low carrying amount but with a high impact on the applicant's future cash flow and profit and loss statements, investors would benefit from information on how valuers assessed the market value of the site/property.
93. One respondent objected and considered that valuers should be responsible for reviewing all property interests and preparing the summary disclosure and overview. The overview should be signed off by the valuer.
94. Other comments on not requiring property valuations and disclosing valuation information if the carrying amount of a property interest of an applicant's property activities is below 1% of its total assets were:
- (a) 1% is too low; and
 - (b) leased properties should be valued as otherwise valuers will not have an opportunity to ascertain the details of the lease.
95. There were also comments relating to the accounting treatment:
- (a) one respondent sought clarification on how the carrying amount should be determined if a property interest is acquired after the latest audit;
 - (b) one respondent sought clarification on whether a detailed breakdown of property interests needs to be disclosed in the prospectus; and
 - (c) one respondent considered net assets instead of total assets should be used.

96. On question 10, some respondents commented that the method of identifying the properties comprising the 10% limit in CP paragraph 85 should be in the Listing Rules and/ or the class exemption notice. One respondent queried how to choose which property to value in the case where two properties have the same carrying amount that would cross the 10% limit¹⁵ and suggested that both properties should be valued.

Our responses

97. Valuation information on property interests that fall within the definition of property activities is important for investors. However, as mentioned in CP paragraphs 46 to 49, there are circumstances where valuation of every property interest is overly burdensome. So we proposed that a valuation should not be required where a property represents an immaterial portion of an applicant's total assets.
98. If we require using market value to determine what an immaterial portion is, it would defeat the purpose of removing unnecessary burdens on applicants as valuations will need to be done for all property interests. To strike a balance between using carrying amount (which may not reflect market value) and requiring valuation for every property interest even if it is immaterial, we proposed a small percentage, 1%, as the cut-off under which valuation is not required. We consider that the risk of not valuing material property interest is low if the percentage cut-off is clearly immaterial.
99. Sponsors and advisers are also required to conduct due diligence. An applicant is under the general disclosure obligation to disclose information on material property interests, and where appropriate the information may include a valuation.
100. Given the above, on balance, we consider the current proposals for questions 8 and 9 appropriate. We disagree that 1% is too low as suggested by some respondents.
101. For the comment in paragraph 92, the property valuation requirements in CP Chapters 4 and 5 are the minimum requirements for property valuations. As mentioned in CP paragraph 60, an applicant may include valuation reports voluntarily. So, if under its general disclosure obligation the applicant considers the information is necessary for investors to make an informed decision, valuation information or how valuers would have assessed the market value could be disclosed in the listing document.
102. For the comment in paragraph 93, an applicant may engage professionals and advisers for advice and verifying information in the listing document. We do not consider it necessary to have that requirement in the class exemption notice or the Listing Rules.
103. For the comment in paragraph 94(b), under current accounting standards, rental payments under operating leases from a lessee's view point are normally recognised as expenses and the carrying amount in the balance sheet is zero. So, valuations will not be required for operating leases. As mentioned in the Consultation Paper and under PN 21, a sponsor has the duty to conduct due diligence. If a leased property is determined to be material, information must be disclosed under the general disclosure obligation. Operating leases that are not material property interests will be

¹⁵ The example given by the respondent is where an applicant has four properties, each of them comprises 2%, 3%, 4% and 4% of the applicant's total assets. The question is which of the property that comprise 4% of the applicant's total assets should be chosen given that either one of them can cross the 10% limit.

required to be disclosed in the overview (see paragraphs 119 to 125 and paragraphs 148 to 151).

104. For the comment in paragraph 95(a), if the acquisition is made after the latest audit, the acquisition cost should be used. In this case, we consider that the total assets used to calculate the 1% should be total assets in the latest audited accounts of the applicant. We will clarify this in the class exemption notice and the Listing Rules.
105. For the comment in paragraph 95(b), the carrying amount of a property interest must be ascertainable from the books and records and consolidated into the balance sheet of the applicant. Also, the carrying amount of a property interest used to calculate the 1% should be the amount as reported in the consolidated balance sheet of the applicant and not the effective value based on the applicant's percentage holding in the subsidiary (or the entity that is consolidated into the balance sheet). For example, a 80% owned subsidiary of an applicant holds a property interest with a carrying amount of \$200 million. The carrying amount of \$200 million should be used instead of \$160 million. Disclosure of a breakdown of property interests in the prospectus is not required.
106. For the comment in paragraph 95(c), as mentioned in CP paragraph 97, we consider that total assets should be used so that a direct comparison can be made with the carrying amount of property interests (which is stated before liabilities and mortgages).
107. For the comment in paragraph 96, generally, an applicant should identify the carrying amount of each property interest and add up from the lowest values until the 10% limit is reached. Property valuations will not be required for property interests comprising the lowest 10%. We will clarify in the FAQs to the Listing Rules on the method of identifying the properties comprising the 10% limit. In the scenario given by the respondent, since carrying amount of all property interests is above 1% of the applicant's total assets, all property interests should be valued. There may be a scenario where there are 12 property interests with the exact same carrying amount, for example 0.99%. It would be unclear which ones to value as they all have the same values. The respondent's suggestion to value the one preceding and one after would not work. We would leave it to the applicant and its advisers to determine taking into account the general disclosure obligation.
108. We will adopt the proposals subject to the clarification in paragraph 104.

Summary disclosure of valuation reports for property interests valued at below 5% of the applicant's total valued property interests
(paragraphs 86 – 87 of the Consultation Paper)

109. We proposed 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. (*Consultation question 11*)
110. We asked whether 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. (*Consultation question 12*)
111. We sought comments on the form for summary disclosure of property interests in Appendix II of the Consultation Paper. (*Consultation question 13*)

Comments received

112. An overwhelming majority of respondents supported the proposal 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.
113. A majority of respondents supported the summary form of disclosure. Some commented that the form is too general and may omit certain important information, such as age of the property, total acquisition cost, year of acquiring the property interests. The summary should be tailored to the characteristic of each single property.
114. Some respondents considered that the disclosure may be too burdensome for properties under development.

Our responses

115. As mentioned in the Consultation Paper and the proposed Rule 5.02B(b)(ii), the summary form of disclosure can be varied based on the applicant's circumstances. The applicant should include information that it considers relevant to investors to make an informed decision. We will further clarify this position in the Listing Rules.
116. We do not consider the summary too burdensome as the information is extracted from valuation reports. However, based on respondents' comments, discussions with industry representatives and enquiries from applicants, we will modify the summary disclosure as follows:
 - (a) providing that an applicant can give a general description of the project. The information, e.g. an address, will help investors identify the property if the project has no name;
 - (b) clarifying that development cost applies to properties under development (as Rule 5.06(3)(e));
 - (c) clarifying that rental information means information to the extent disclosed under Rule 5.06(2); and
 - (d) adding that an applicant should include any other information that is relevant for investors.
117. We will adopt the proposal 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.
118. We will clarify that the summary form of disclosure can be varied based on the issuer's circumstances as proposed in paragraph 115. We will amend the summary form of disclosure as proposed in paragraph 116.

Overview of property interests not valued (paragraphs 88 of the consultation paper)

119. We proposed that an applicant be required to include an overview describing all property interests not covered by a valuation report in the listing document. (*Consultation question 14*)

Comments received

120. An overwhelming majority of respondents agreed with the proposal. One respondent considered that an applicant should be allowed to include in its overview information which has been voluntarily valued.
121. Some respondents, while agreeing to include an overview in the listing document, considered that the overview should relate to material properties, which are already required to be disclosed under the general disclosure obligation.
122. One respondent objected to the proposal as the disclosure of property interests not covered by valuation reports is not meaningful if they are immaterial. A group of respondents objected as they considered only information above a certain threshold should be disclosed and must be included in a valuation report.

Our responses

123. We agree that an applicant should be allowed to include information which has been voluntarily valued in its overview as long as this is clearly stated in the listing document. This is permissible under the class exemption notice and it is unnecessary to amend it. We will clarify this in the Listing Rules.
124. Applicants must disclose information under the general disclosure obligation for material property interests, which includes information in CP paragraph 61. CP Chapters 4 and 5 set out percentages above which disclosure of valuation information is required. The overview is to capture other property interests so that investors have a full picture of the applicant's property interests. We do not consider that this requirement would impose an unnecessary burden on applicants.
125. We will adopt the proposal subject to the clarification in paragraph 123.

Listing Rule amendments and class exemption notice (paragraphs 89 - 91 of the consultation paper)

126. The SFC proposed that the proposed class exemption notice should apply to prospectuses for unlisted companies as well as applicants. (*Consultation question 15*)
127. We asked whether the proposed class exemption notice in Appendix III, and proposed Listing Rule amendments in IV.A and IV.B of the Consultation Paper will implement the proposals for property activities. (*Consultation questions 16 and 17*)

Comments received

128. We received overwhelming support that the proposed class exemption notice should also apply to prospectuses for unlisted companies.

129. We received overwhelming support for the proposed class exemption notice and the Listing Rule amendments.

Our responses

130. The SFC considers that there is no apparent justification for applying stricter disclosure requirements for unlisted companies than those that are applicable to applicants, the prospectus for unlisted companies should therefore be treated the same as the prospectus for applicants.
131. The class exemption notice reflects some drafting comments raised by the respondents and our responses in paragraphs 48, 57, 77, 83, 108, 118 and 125.
132. The Exchange will adopt the proposed Listing Rule amendments subject to some drafting comments raised by respondents and our responses in paragraphs 39, 48, 57, 68, 77, 83, 108, 118 and 125.

CHAPTER 4: RESPONSES TO COMMENTS RECEIVED ON PROPOSALS FOR NON-PROPERTY ACTIVITIES

Valuation report for each property interest with a carrying amount of 15% or above of total assets

(paragraphs 94 – 97 of the Consultation Paper)

133. We proposed 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. (*Consultation question 18*)
134. We asked if 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. (*Consultation question 19*)

Comments received

135. An overwhelming majority of respondents supported the proposals. Similar to question 8, some respondents considered that the market value instead of the carrying amount should be used to calculate the threshold. Some respondents considered that 15% is too high or preferred a fixed amount.
136. One respondent that objected to the proposal considered that properties are one of the key tangible assets owned by an applicant. So, the true value of these assets should be assessed and fully disclosed. The respondent emphasised the importance of valuers' due diligence given a property's significance to the applicant's business.

Our responses

137. Please see our responses in paragraphs 97 to 100. Please also see our response in paragraph 105.
138. Property interests for non-property activities are normally for own use. We do not consider that valuation information is necessary for investors to make an informed decision unless the property interest comprises a significant portion of the applicant's assets. We consider the 15% threshold as appropriate.
139. Although our proposals only require valuation for a significant property interest, applicants are also under the general disclosure obligation to disclose information on material property interests.
140. A sponsor also has the duty to conduct due diligence. Under paragraph (13)(e) of PN 21, it should undertake physical inspection of material property. Under paragraph 13(l) of PN 21, it should assess whether there is appropriate documentation to confirm that the material property is appropriately held by the applicant. Please also see CP paragraph 57 on the importance of sponsors' and advisers' due diligence.
141. We will adopt the proposal 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.

Other disclosure requirements (paragraph 98 of the Consultation Paper)

142. We proposed to require a statement that, other than the property interests in valuation reports, there is no single property interest in the group which has a carrying amount of 15% or more of total assets. (*Consultation question 20*)

Comments received

143. An overwhelming majority of respondents supported the proposal. Two respondents commented that the statement is meaningless as all relevant property interests are required to be included in the valuation report. If the concern is that investors may not understand the scope of the valuation report, the report may refer to the scope of the valuation and the 15% threshold.
144. One respondent suggested that applicants be given the flexibility not to adopt word-for-word the statement in the proposed Listing Rules.

Our responses

145. The purpose of the statement is to provide assurance that the applicant has considered and disclosed information as required by the Listing Rules on its significant property interests. The timing reference point for the statement is the listing document date. We will clarify the timing reference point in the FAQs to the Listing Rules.
146. We agree that the statement does not need to be adopted word-for-word.
147. We will adopt the proposal.

Overview of property interests not valued (paragraph 99 of the Consultation Paper)

148. We proposed that an applicant must include an overview in the listing document describing all property interests not covered by a valuation report. (*Consultation question 21*)

Comments received

149. We received overwhelming support for the proposal. Comments received were similar to those for question 14. One respondent considered that including an overview is too general and cannot give details of property interests.

Our responses

150. Please see our responses to question 14.
151. We will adopt the proposal.

Property interests ancillary to mining activities (paragraph 100 of the Consultation Paper)

152. We proposed 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.
(*Consultation question 22*)

Comments received

153. An overwhelming majority of respondents supported the proposal. Among those that disagreed, one respondent commented that consideration should be given to the indivisible nature of the resources and its properties. For example, metal and petroleum refining and related transportation infrastructure may be significant for an extractive company.
154. Another respondent commented that if the valuation only focuses on mining rights (instead of the market approach or income approach), the value of assets such as production facilities may be ignored and the information given may be misleading.
155. Some respondents considered that substantial properties, such as processing plants, or those that comprise a major portion of the applicant's assets should still be valued.
156. A group of respondents sought clarification on whether this relaxation will also include situations where there is a Competent Person's Report. Another group of respondents noted that a Valuation Report is optional under Chapter 18 of the Listing Rules. Applicants are unlikely to benefit unless the exemption is extended to where a Competent Person's Report is included in the listing document.

Our responses

157. Chapter 18 of the Listing Rules requires a Competent Person's Report, which may or may not include the value of mineral or petroleum assets. A Valuation Report, which is optional, must be conducted by a Competent Evaluator.
158. We understand that there are generally two methods of valuation of natural resources, which are:
- (a) business or project valuation which would normally include valuation of the resources and their ancillary properties; and
 - (b) valuation of natural resources or licenses only.
159. We agree that the value of natural resources also depends on its ancillary properties and infrastructures for operations. So a valuation of natural resources alone may not give meaningful information if ancillary properties and infrastructures are excluded. Mining activities should be viewed as an operating entity.
160. We propose that if the mine has been valued as a business or as an operating entity (including ancillary properties), separate valuation of its ancillary properties will not be required. A valuation of ancillary properties will still be required if only the resources or licenses are valued.

161. The term “valuation” used in the proposed class exemption notice and the Listing Rules refer to valuation information in the Competent Person’s Report or Valuation Report as defined in Chapter 18 of the Listing Rules, which must be conducted by a Competent Evaluator (as defined in Chapter 18 of the Listing Rules). We will clarify this in the Listing Rules. So the exemption would be available if a valuation is conducted and it is a business or an operating entity valuation. If the exemption is not available, applicants must follow the valuation and disclosure requirements for non-property activities.
162. We would also like to clarify that an overview of property interests will still be required where valuation is not required. We will amend the class exemption notice and the proposed Listing Rules based on our comments in paragraphs 160 and 161.

Listing Rule amendments and class exemption notice (paragraphs 101 - 103 of the Consultation Paper)

163. The SFC proposed that the proposed class exemption notice should apply to prospectuses for unlisted companies as well as applicants. (*Consultation question 23*)
164. We asked whether the proposed class exemption notice in Appendix III, and the proposed Listing Rule amendments in Appendices IV.A and IV.B of the Consultation Paper will implement the proposals for non-property activities. (*Consultation questions 24 and 25*)

Comments received

165. We received overwhelming support that the proposed class exemption notice should also apply to prospectuses for unlisted companies.
166. We received overwhelming support for the proposed class exemption notice and the Listing Rule amendments. We also received some minor drafting comments. A respondent commented that the proposed Listing Rules should be consistent with the proposed class exemption notice. For instance, the definition of “Type B interest” in the proposed class exemption notice does not specifically cover the disclosure of valuation of property interest forming part of the guarantor’s property activities for debt securities offerings.

Our responses

167. The SFC considers that there is no apparent justification for applying stricter disclosure requirements for unlisted companies than those that are applicable to applicants, the prospectuses for unlisted companies should therefore be treated as the same as the prospectus for applicants.
168. The class exemption notice reflects some drafting comments raised by the respondents and our responses in paragraph 162.
169. The Exchange will adopt the proposed Listing Rule amendments, amended for the drafting comments and our responses in paragraph 162.

CHAPTER 5: RESPONSES TO COMMENTS RECEIVED ON PROPOSALS FOR ISSUERS

Disclosure guidance for material property interests (paragraphs 61 and 111 of the Consultation Paper)

170. We sought comments on the disclosure guidance for material property interests.
(*Consultation question 26*)

Comments received

171. A large majority of respondents supported the proposed disclosure guidance for material property interests. Respondents raised comments similar to question 1.
172. One respondent queried whether consideration should be given to the guidance set out in Rule 11.1(f) of the Takeovers Code when considering the definition of “materiality” and thresholds for “significant”.

Our responses

173. Please see our responses to question 1.
174. The proposed disclosure guidance for material property interests is separate from the valuation requirements under the Takeovers Code. An acquirer of an interest in a company listed on the Exchange and advisers are reminded of the valuation requirements under Rule 11.1(f) of the Takeovers Code.
175. We will adopt the proposed disclosure guidance in the Consultation Paper subject to our responses to question 1 in paragraph 39.

Different valuations requirements for issuers (paragraph 112 of the Consultation Paper)

176. We asked if it is unnecessary to introduce different valuation requirements for acquisition or disposal of non-property activities and property activities for issuers.
(*Consultation question 27*)

Comments received

177. A large majority of respondents agreed that it is unnecessary to introduce different valuation requirements for acquisition or disposal of non-property activities and property activities for issuers. Those that objected to the proposal did not give reasons for their objection.

Our responses

178. Rule 5.02 requires valuations of and information on property for an acquisition or disposal of a company whose assets consist solely or mainly of property. This requirement has worked well for issuers. Also, those that objected to the proposal did not give substantive reasons for their objection. We do not see any reason to change this requirement. We will not introduce different valuation requirements for acquisition or disposal of non-property activities and property activities for issuers.

Acquisition or disposal of an interest in a company listed on the Exchange

(paragraphs 114 - 115 of the Consultation Paper)

179. We proposed to remove valuation requirements if the company being acquired or disposed of is listed on the Exchange, except for a connected transaction. *(consultation question 28)*
180. We proposed that an overview of property interests not covered by a valuation report be disclosed in the circular. *(Consultation question 29)*

Comments received

181. An overwhelming majority of respondents supported the proposal to remove valuation requirements if the company being acquired or disposed of is listed on the Exchange, except for a connected transaction.
182. The respondents that objected considered that the share price may not fully reflect the listed company's underlying asset value. One respondent suggested to continue requiring valuations if the company being acquired or disposed of is listed on the Exchange but to give the financial advisers and/or issuers the discretion not to conduct valuation if they believe that it will not bring material benefit to investors.
183. An overwhelming majority of respondents supported the proposal to include an overview of the property interests not covered by a valuation report in the circular. Similar comments were raised as for question 14.

Our responses

184. The Listing Rules require disclosure of periodic and price sensitive information of an issuer. Chapter 14 of the Listing Rules further requires relevant information to be disclosed in an acquisition or disposal circular. We consider that investors are well informed of the financial and asset position of an issuer and of any significant transactions that are publicly announced.
185. For the comment in paragraph 182, we do not consider it practicable for financial advisers and/or issuers to be given the discretion not to conduct valuation if they believe that it will not bring material benefit to investors.
186. Please see our responses to question 14 regarding including an overview of property interests not covered by a valuation report.
187. We will adopt the proposals.

Acquisition or disposal of an unlisted company

(paragraphs 116 - 119 of the Consultation Paper)

188. We proposed not to require property valuations and disclosure of valuation information for acquisition or disposal of an unlisted company if the carrying amount of a property interest is below 1% of the issuer's total assets. *(Consultation questions 30 and 31)*

189. We proposed that the total carrying amount of property interests that do not require valuation cannot exceed 10% of the issuer's total assets. (*Consultation question 32*)

Comments received

190. We received majority support for the proposals. Most comments received were similar to those for questions 8 to 10.
191. Some respondents considered there should be separate thresholds for companies engaged in property activities and those in non-property activities.
192. One respondent was concerned that for a disposal, the real value of a property interest may be lost if the transaction is with a friendly party at a low price.
193. One respondent sought clarification on the practicality of using the carrying amount if the property interest is not yet recognised in the issuer's most recent audited balance sheet. Also, 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.
194. One respondent also suggested referring to the target's total assets instead of the issuer's total assets.
195. One respondent considered that the proposals for property activities and non-property activities applicable to applicants should also apply to an acquisition or disposal of a company.

Our responses

196. Please see our responses to questions 8 to 10.
197. For the comment in paragraph 191, the current valuation requirements for issuers are different from the requirements for applicants. Valuation information is required where a transaction is classified as major or above and where the company to be acquired or disposed of consist solely or mainly of properties. We do not consider it necessary to add a classification and impose different requirements for companies engaged in property activities and those in non-property activities.
198. Where the carrying amount of a property interest is not yet recognised in the issuer's most recent audited balance sheet, the acquisition cost should be used to calculate the percentages. We will clarify this in the Listing Rules.
199. For the comments in paragraphs 192 and 193, under Rule 14.58, the announcement must include the value of the transaction and the basis upon which the consideration was determined. It should also include the value of assets which are the subject of the transaction. If the transaction is a notifiable transaction, the directors have the fiduciary duty to act in the interest of the company and its shareholders. Also, under Rule 5.02, a valuation report is required if the transaction is classified as a major or above transaction. So we disagree that shareholder interests may not be protected.
200. An issuer may purchase a single property holding company. However, the property may be insignificant to the issuer. We consider that whether a property is significant should be considered with reference to the issuer's size. We do not agree that a target's assets should be used.

201. Rule 5.02 requires a valuation for an acquisition or disposal of a company whose assets consist solely or mainly of property. We do not consider this requirement and the proposal would impose an unnecessary burden on issuers. Also, an overwhelming majority of the respondents agreed that it unnecessary to apply different requirements for property activities and non-property activities. So, we will maintain the current proposals.

202. We will adopt the proposals subject to the clarification in paragraph 198.

Definition of property interest

203. We sought comments on the proposed definition of property interest in CP paragraph 67. (*Consultation question 33*)

Comments received

204. An overwhelming majority of respondents supported the proposal.

205. One respondent sought clarification that a property interest does not include an option to purchase. Other respondents' comments are the same as those for question 3.

Our responses

206. Please see our responses to question 3, which include our comments on whether a property interest includes an option to purchase.

207. We will adopt the proposal.

Guidance on what constitutes a property interest

208. We sought comments on the proposed guidance on what should be treated as a single property interest in CP paragraph 69. (*Consultation question 34*)

Comments received

209. An overwhelming majority of the respondents supported the proposal. Respondents raised similar comments as for question 4.

Our responses

210. Please see our responses for question 4.

211. We will adopt the proposal subject to our responses in paragraph 68.

Summary disclosure

212. We proposed that a circular should include the full text of valuation reports for all property interests that are required to be valued except where summary disclosure is allowed. (*Consultation question 35*)

213. We asked whether 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. (*Consultation question 36*)

214. We sought comments on the form for summary disclosure of property interests in Appendix II of the Consultation Paper. (*Consultation question 37*)

Comments received

215. An overwhelming majority of respondents supported the proposals.
216. Respondents raised similar comments as for questions 11 to 13. One respondent suggested that in addition to public inspection of hard copies of full valuation reports, they may be displayed electronically (e.g. on the issuer's website).

Our responses

217. Please see our responses to questions 11 to 13. The comment on use of website for full valuation reports is noted. We will consider it as a separate exercise.
218. We will adopt the proposals relating to summary disclosure subject to our responses to questions 11 to 13 in paragraph 118.

Overview

219. We proposed that an overview of property interests not covered by a valuation report be disclosed in the circular. (*Consultation question 38*)

Comments received

220. We received overwhelming support for the proposal. Respondents raised similar comments as for question 14.

Our responses

221. Please see our responses to question 14.
222. We will adopt the proposal subject to our responses to question 14 in paragraph 125.

Property interests ancillary to mining activities
(paragraph 120 of the Consultation Paper)

223. We proposed 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. (*Consultation question 39*)

Comments received

224. An overwhelming majority of respondents supported the proposal. Comments raised were the same as those for question 22.

Our responses

225. Please see our responses to question 22.
226. We will amend the Listing Rules based on our response to question 22 in paragraph 162.

Very substantial acquisition (paragraph 121 of the Consultation Paper)

227. We proposed not to require valuations of existing property interests of the issuer for a very substantial acquisition. (*Consultation question 40*)

Comments received

228. We received overwhelming support for the proposal. However, some respondents commented that the market value of an issuer's property interests should be updated and disclosed for investors to make an informed decision.

Our responses

229. The Listing Rules require periodic and price sensitive information of an issuer to be disclosed. Chapter 14 of the Listing Rules further requires relevant information to be disclosed in a very substantial acquisition. We consider that the obligations in the Listing Rules are sufficient to give relevant information of an issuer for investors to make informed decision. So we disagree that an issuer has to conduct valuations of existing property interests for a very substantial acquisition.

230. We will adopt the proposal.

Connected transaction (paragraphs 122 - 125 of the Consultation Paper)

231. We proposed to retain the existing valuation requirements for connected transactions. (*Consultation question 41*)

232. We proposed that valuation will continue to be required if the connected transaction involves an acquisition or disposal of a company listed on the Exchange. (*Consultation question 42*)

233. We asked whether the respondents agree with the proposals relating to connected transactions in CP paragraph 125. (*Consultation question 43*)

Comments received

234. Responses to question 41 agreed with the proposal to retain the existing valuation requirements for connected transactions.

235. An overwhelming majority of respondents supported the proposal that valuation will continue to be required if the connected transaction involves an acquisition or disposal of a company listed on the Exchange. An overwhelming majority of respondents agreed with the proposals relating to connected transactions in CP paragraph 125.

236. On question 42, two respondents suggested that a valuation report should not be required if independent financial advisers can justify the basis of consideration without reference to the property valuation.

237. There are drafting comments to the Listing Rules to clarify that the connected transactions requirements remain unchanged.

Our responses

238. The value of properties may be a factor in determining the consideration but not the only basis. Consideration is a business decision arrived at after arm's length negotiation. Also, the role of an independent financial adviser is not to justify the basis of consideration but to form an opinion as to the fairness and reasonableness of the transaction and advise the independent board committee.¹⁶ We therefore do not agree with the suggestion in paragraph 236.
239. We agree to clarify in the proposed Listing Rules that the requirements for connected transactions remain unchanged.
240. We will adopt the proposals subject to the drafting comments in paragraph 239.

Contents of valuation reports (paragraphs 74 and 127 of the Consultation Paper)

241. We asked whether there is any other information that should be disclosed in a valuation report that is not required at present by the Listing Rules. (*Consultation question 44*)

Comments received

242. An overwhelming majority of respondents considered that there is no other information that should be disclosed in a valuation report that is not required by the Listing Rules.
243. Comments raised were the same as for question 5.

Our responses

244. Please see our responses for question 5. We will adopt the proposal.

Effective date for valuation (paragraphs 76 - 78 and 128 of the Consultation Paper)

245. We proposed to maintain the effective date at which the property was valued. (*Consultation question 45*)

Comments received

246. We received overwhelming support on the proposal. One respondent commented that the 3 months requirement was overly burdensome in one of its acquisitions. It considered that the substantial costs and efforts incurred outweighed the benefits to shareholders to have up-to-date valuation information and proposed to extend the effective date to 6 months.
247. Other comments were similar to those raised for question 6.

¹⁶ See Rule 14A.22.

Our responses

248. We have not received other comments that the 3-month effective date is overly burdensome. In fact, some respondents considered that the information should be updated as frequently as possible given the volatility of the market.
249. Given the lack of extensive evidence that the 3-month effective is overly burdensome, we will retain the effective date requirement.

Rule amendments (paragraphs 129 and 130 of the Consultation Paper)

250. We asked whether the proposed Listing Rule amendments in Appendices IV.A and IV.B of the Consultation Paper will implement the proposals for issuers. (*Consultation question 46*)

Comments received

251. An overwhelming majority of the respondents agreed that the proposed Listing Rule amendments in Appendices IV.A and IV.B of the Consultation Paper will implement the proposals for issuers.

Our responses

252. The Exchange will adopt the proposed Listing Rule amendments subject to the responses in paragraphs 175, 178, 187, 202, 207, 211, 218, 222, 226, 230, 240, 244 and 249.

APPENDIX I: COMPANIES ORDINANCE (EXEMPTION OF COMPANIES AND PROSPECTUSES FROM COMPLIANCE WITH PROVISIONS) (AMENDMENT) NOTICE 2011

Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) (Amendment) Notice 2011

(Made by the Securities and Futures Commission under sections 38A and 342A of the Companies Ordinance (Cap. 32))

1. Commencement

This Notice comes into operation on 1 January 2012.

2. Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice amended

The Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32 sub. leg. L) is amended as set out in section 3.

3. Section 6 substituted

Section 6—

Repeal the section

Substitute

“6. Exemptions from requirement to set out valuation report

- (1) If it is proposed to offer any shares in or debentures of a company incorporated under the Ordinance by a prospectus issued generally, then, subject to the conditions specified in subsection (3), the prospectus is exempted from compliance with the requirements of section 38(1) of the Ordinance, in relation to paragraph 34(2) of the Third Schedule to the Ordinance.
- (2) If it is proposed to offer any shares in or debentures of a company incorporated outside Hong Kong by a prospectus issued generally, then, subject to the conditions specified in subsection (3), the prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Ordinance, in relation to paragraph 34(2) of the Third Schedule to the Ordinance.
- (3) The conditions referred to in subsections (1) and (2) are—
 - (a) the company must obtain a valuation report from an independent qualified valuer as to the value of each Type A interest which is not an exempt Type A interest and each Type B interest which is not an exempt Type B interest as at a date not earlier than 3 months before the date of the prospectus;
 - (b) the valuation report must contain the particulars required under subsection (4) and comply with the requirements under paragraph 46(a) to (c) of the Third Schedule to the Ordinance;
 - (c) the prospectus must contain the following—

- (i) an overview specified in subsection (5) with respect to all exempt Type A interests which are not covered by a valuation report set out in the prospectus and all exempt Type B interests which are not covered by a valuation report set out in the prospectus;
 - (ii) a summary specified in subsection (6) with respect to each summary Type B interest which is not covered by a valuation report set out in the prospectus;
 - (iii) the full text of the valuation report with respect to each Type A interest which is not an exempt Type A interest; and
 - (iv) the full text of the valuation report with respect to each Type B interest which is not an exempt Type B interest or a summary Type B interest; and
- (d) if the property interests of the company include any summary Type B interest which is not covered by a valuation report set out in the prospectus, then the company must make the full text of the valuation report with respect to the summary Type B interest available for inspection by the public.
- (4) A valuation report required under subsection (3)(a) must contain the particulars set out in paragraph 34(2)(a) to (h) and (3)(a) and (b) of the Third Schedule to the Ordinance as well as the following particulars—
- (a) the current planning or zoning use;
 - (b) details of title and ownership;
 - (c) details of encumbrances;
 - (d) any option or right of pre-emption;
 - (e) the approach to valuation;
 - (f) the date of the last inspection and the names and qualifications of the persons who carried out the inspection;
 - (g) a summary of the investigations carried out by the independent qualified valuer to arrive at the valuation;
 - (h) the nature and source of information relied on;
 - (i) if the valuation certificates are grouped together, an explanation of the groupings; and
 - (j) any other matters that may materially affect the value.
- (5) An overview required under subsection (3)(c)(i) must set out the following particulars—
- (a) the total number;
 - (b) the nature;
 - (c) the approximate size range;
 - (d) the uses; and
 - (e) a general description of the locations.
- (6) A summary required under subsection (3)(c)(ii) must set out the following particulars—
- (a) the geographical region of the location;
 - (b) a brief description;
 - (c) the use;
 - (d) the nature of the tenure and the term (if any);
 - (e) the total or planned gross floor area, the leasable or saleable area and the number of units and car parking spaces;

- (f) the average occupancy rate and the average effective rent;
- (g) if completed, the year of completion or, if under development, the development commencement date, expected completion date and the development cost; and
- (h) the percentage interest and the value attributable to the group.

(7) In this section—

carrying amount (帳面值), in relation to a property interest, means—

- (a) the amount at which the property interest is recognized in the most recent audited consolidated balance sheet of the group as disclosed in the prospectus of the company after deducting any accumulated depreciation or amortization, as the case may be, and accumulated impairment losses on the property interest;
- (b) if the property interest is acquired after the date up to which the most recent audited consolidated balance sheet of the group was made, the acquisition cost of the property interest;

exempt Type A interest (獲豁免 A 類權益) means—

- (a) any Type A interest (whether or not a mining property interest) which has a carrying amount of less than 15% of the group's total assets;
- (b) if the prospectus contains a report from an independent qualified valuer regarding the valuation, as a business or operating entity, of any mining property interest which has a carrying amount of 15% or more of the group's total assets together with its associated minerals or petroleum resources or assets, the mining property interest;

exempt Type B interest (獲豁免 B 類權益) means—

- (a) if the aggregate carrying amount of all Type B interests with a carrying amount of less than 1% of the group's total assets does not exceed 10% of the group's total assets, any Type B interest which has a carrying amount of less than 1% of the group's total assets;
- (b) if the aggregate carrying amount of all Type B interests with a carrying amount of less than 1% of the group's total assets exceeds 10% of the group's total assets, those Type B interests whose carrying amounts when added together do not exceed 10% of the group's total assets;

group (集團), in relation to a company incorporated under the Ordinance (or a company incorporated outside Hong Kong), the shares in which, or the debentures of which, are proposed to be offered by a prospectus issued generally, means the company and its subsidiaries;

mining property interest (開採物業權益) means a Type A interest which is ancillary to the exploration or extraction of minerals or petroleum products;

property (物業) means land and buildings, whether completed or in the process of development, and includes any fixtures and fittings;

property activities (物業業務) means holding (whether directly or indirectly), purchasing or developing properties for sale, letting or retention as investments;

property interest (物業權益) means any interest in property;

summary Type B interest (以摘要方式披露的 B 類權益) means any Type B interest which—

- (a) is not an exempt Type B interest; and
- (b) has a value of less than 5% of the aggregate value, as determined by an independent qualified valuer, of all Type B interests which are not exempt Type B interests;

total assets (資產總值), in relation to a group, means the total assets of the group as shown in the most recent audited consolidated balance sheet of the group as disclosed in the prospectus of the company;

Type A interest (A 類權益), in relation to a member of a group, means the member's interest in any property that is not the subject matter of any property activities engaged in by the member as at the date of the prospectus;

Type B interest (B 類權益), in relation to a member of a group, means the member's interest in any property that is the subject matter of any property activities engaged in by the member as at the date of the prospectus.

- (8) The conditions in subsection (3) are also applicable to a guarantor corporation (as defined by sections 38(8) and 342(8) of the Ordinance) in relation to an offer or invitation to the public to subscribe for or purchase debentures of a company incorporated under the Ordinance or a company incorporated outside Hong Kong.”.

Chief Executive Officer,
Securities and Futures Commission

2011

Explanatory Note

The Securities and Futures Commission may, by notice published in the Gazette under sections 38A(2) and 342A(2) of the Companies Ordinance (Cap. 32) (***the Ordinance***), exempt any class of prospectuses issued by companies from any or all of the requirements of sections 38(1) and 342(1) of the Ordinance, respectively. Section 38(1) of the Ordinance provides that every prospectus issued by or on behalf of a company must set out the reports specified in Part II of the Third Schedule to the Ordinance. Section 342(1) of the Ordinance provides that it is not lawful to issue any prospectus for shares in or debentures of a company incorporated outside Hong Kong unless the prospectus sets out the reports specified in Part II of the Third Schedule to the Ordinance.

2. This Notice exempts certain prospectuses issued by companies from the requirement to set out a valuation report containing the particulars specified in paragraph 34(2) of the Third Schedule to the Ordinance, subject to certain conditions. The prospectuses may contain an overview setting out specified particulars with respect to all property interests which are exempted. Specified particulars with respect to certain property interests can be disclosed in the prospectuses by way of a summary with the full text of the valuation report with respect to each of the property interests being made available for inspection by the public. The prospectuses must contain the full text of the valuation report with respect to each property interest which is not exempted or for which disclosure by way of a summary is not permitted.

APPENDIX II.A: MAIN BOARD 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 listing document after deducting any accumulated depreciation (amortisation) and accumulated impairment losses. For an issuer, the amount at which an asset is recognised in its latest published audited consolidated accounts or latest published interim report (whichever is more recent) after deducting any accumulated depreciation (amortisation) and accumulated impairment losses;

Note: If an acquisition is made after the latest consolidated audited accounts, the acquisition cost should be used.

- (2) “property activities” mean holding (directly or indirectly) and/or development of properties for letting or retention as investments, or the purchase or development of properties for subsequent sale, or for subsequent letting or retention as investments. It does not include holding of properties for own use;

Notes:

(1) *Any other property interest is classified as “non-property activities”.*

(2) *The listing document date must be used as the timing reference point to categorise a property interest into property activity or non-property activity.*

- (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 or complex;*

(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 properties, structures or facilities comprising a property development project (even if there are different phases);
 - (e) one or more properties held for investment within one complex;
 - (f) one or more properties, structures or facilities located contiguously to each other or located on adjoining lots and used for the same or similar operational / business purposes;
or
 - (g) a project or phases of development presented to the public as one whole 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 in the listing document. 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 its total assets; and
- (b) that do not form part of its (or, for debt securities, the guarantor’s) 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 applicant’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 applicant's circumstances. The valuation report setting out the information required by these Rules must be available for public inspection;

Note: The summary form of disclosure may be varied based on the applicant's circumstances. An applicant must include additional information necessary for investors to make an informed decision.

- (b) for property interests of an applicant'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, 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. The overview may include property interests voluntarily valued and disclosed separately in the listing document; and
- (d) the general information in rule 5.10, if it applies.

5.01C Rules 5.01A and 5.01B (except rules 5.01B(c) and 5.01B(d)) 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 that encompasses these Natural Resources and ancillary property interests, and together have been valued as a business or as an operating entity by a Competent Evaluator (as defined in Chapter 18).

Note: Rules 5.01A(b) and 5.01B(b) to (d) apply to property interests ancillary to the exploration for and/or extraction of Natural Resources if the listing document does not include a valuation of all the ancillary property interests conducted by a Competent Evaluator.

Requirements for an issuer

5.02 ~~In the case of~~ For an acquisition or ~~disposal~~ realisation of any property interest, 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 ~~disposal~~ 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 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 property is acquired under a Qualified Property Acquisition (as defined in rule 14.04(10C)); or
- (c) the company being acquired or disposed of is listed on the Exchange, except if it is a connected transaction; or
- (d) subject to rule 5.03, 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) and the circular includes a valuation that encompasses these Natural Resources and ancillary property interests, and together have been valued as a business or as an operating entity by a Competent Evaluator (as defined in Chapter 18); or

Note: Rule 5.02 applies to property interests ancillary to the exploration for and/or extraction of Natural Resources if the circular does not include a valuation of all the ancillary property interests conducted by a Competent Evaluator.

- (e) subject to rule 5.03, 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 Subject to rule 5.03, the circular issued under rule 5.02 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

Note: The summary form of disclosure may be varied based on the issuer's circumstances. An issuer must include additional information necessary for investors to make an informed decision.

- (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. The overview may include property interests voluntarily valued and disclosed separately in the circular;

(c) for a company listed on the Exchange whose assets consist solely or mainly of property, an overview of property interests, 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 disposal 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 disposal 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.

...

5.04A ~~These requirements do not apply if the property is acquired under a Qualified Property Acquisition (as defined in rule 14.04(10C)).~~ [Repealed [date]]

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) summary of investigation carried out, 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;

(s) names and qualifications of persons who carried out the site inspection; and

(t) 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 if the property relates to property activities. 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 property is held. For example, owned or leased. If leased, the remaining term of the lease;
- (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) plans for construction, renovation, improvement or development of the property and estimated associated costs;
- (i) plans to dispose of or change the use of the property; and
- (i) any other information considered material for investors.

Chapter 11
EQUITY SECURITIES
LISTING DOCUMENTS

...

Profit Forecasts

...

11.17 ...

.... Any valuation of assets (~~other than~~ except for property interests (as defined in rule 5.01(3) land and buildings)) or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also be~~ is regarded as a profit forecast.

...

Chapter 14
EQUITY SECURITIES
NOTIFIABLE TRANSACTIONS

...

Profit forecast in an announcement

14.61 Any valuation of assets (~~other than~~ except for property interests (as defined in rule 5.01(3) land and buildings)) or businesses acquired by an listed issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also be~~ is regarded as a profit forecast.

...

Major transaction circulars

14.66 A circular relating to a major transaction must contain: ~~the following:—~~

...

(11) where required by Chapter 5 of the ~~Exchange Listing Rules~~, a valuer's report the information under that Chapter on the property interest being acquired or disposed of by the listed issuer;

...

...

Inability to access information to compile circulars for major transactions or very substantial acquisitions

14.67A(1) ...

(2) ...

- (a) ...
 - (b) where information required for the enlarged group is not available, to include the following information regarding the ~~listed~~ issuer:
 - ...
 - (iii) ~~valuation report on land and/or buildings (this is applicable only to very substantial acquisitions, see rule 14.69(3))~~ [Repealed [date]];
 - ...
 - (c) ...
- (3) ...

...

Very substantial acquisition circulars and reverse takeover listing documents

14.69 A circular issued ~~in relation to~~ for a very substantial acquisition or a listing document issued ~~in relation to~~ for a reverse takeover must contain:—

- (1) ~~in respect of a listing document issued in relation to~~ for a reverse takeover,
 - (a) the information required under rule 14.66 (~~save except~~ for the information required under rules 14.66(2), 14.66(3), 14.66(10), ~~and 14.66(11)~~) and ~~under~~ rules 14.67(3) and 14.67(7); ~~and~~
 - (b) the information required under Appendix 1, Part A, if it applies applicable, except paragraphs 8, 15(2) (in respect of the 12 months before preceding the issue of the circular or listing document) and 20(1) For paragraph 36, the statement on sufficiency of working capital must take into account the effect of the transaction; and
 - (c) [Repealed 1 January 2009]
 - (d) information on the enlarged group's property interests (as defined in rule 5.01(3)) under rules 5.01A and 5.01B;
- (2) ~~in respect of a circular issued in relation to~~ for a very substantial acquisition, the information required under rules 14.66 to 14.67 (~~save except~~ for the information required under rules ~~14.66(11) and 14.67(6)~~) and rule 2.17;
- (3) ~~a valuation report on the enlarged group's interests in land or buildings in accordance with Chapter 5 of the Exchange Listing Rules;~~ [Repealed [date]];

...

Chapter 14A
EQUITY SECURITIES
CONNECTED TRANSACTIONS

...

Specific disclosure in circular

14A.59 The circular must contain at least:

...

- (6) information on the property interests (as defined in rule 5.01(3)) under rule 5.03 and an independent valuation if the primary significance of the asset (except for property interests) being acquired or disposed of is its capital value (for example, real property);

...

Chapter 19
EQUITY SECURITIES
OVERSEAS ISSUERS

...

19.10 The following modifications and additional requirements apply:—

...

- (5) ~~in the case of~~ for an introduction in the circumstances ~~set out~~ in rule 7.14(3), the following modifications, exceptions and additional requirements apply:—

...

- (d) where the consolidated assets and liabilities of the overseas issuer are substantially the same as those ~~the consolidated assets and liabilities~~ of the ~~listed~~ issuer or issuers whose securities have been exchanged, the requirement for a valuation and other information on ~~of~~ all the overseas issuer's property interests in land or buildings (see paragraph ~~3951A~~ of Part A of Appendix 1 and Chapter 5 ~~rule 5.04~~) will normally only be required by the Exchange if:—

...

- (e) any valuations required to be included by paragraph ~~3951A~~ of Part A of Appendix 1 and Chapter 5 ~~rule 5.04~~ (as modified by rule 19.10(5)(d)) need only be summarised in the listing document, ~~provided that~~ if a copy of the full valuation report is offered for inspection;

...

Practice Note 12

to the Rules Governing the Listing of Securities
(the "Exchange Listing Rules")

Issued pursuant to rule 1.06 of the Exchange Listing Rules

VALUATIONS OF PROPERTY SITUATED IN DEVELOPING PROPERTY MARKETS

...

2. Introduction

~~Rules 5.01 to 5.04 inclusive Chapter 5 of these Exchange Listing Rules provide for sets out valuation and other disclosure requirements for property interests when valuations are required to be included in for any listing document or circular to shareholders. Rule 5.05 provides 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. Rule 5.06 sets out the information a valuation report should normally include. Rule 5.06(9) provides that thesesuch reports shall contain ~~such~~ other information as the Exchange may require. This Practice Note is intended to set out the information to be included in a valuation report pursuant to under rule 5.06(9) for in respect of property situated in a developing property market.~~

...

10. Notifiable Transactions and Connected Transactions

...

- (a) ...
- (b) may require an independent valuation report even if such report is not expressly required ~~pursuant to rule 5.02 under Chapter 5 of these Exchange Listing Rules;~~ and
- (c) ...

11. Statement by directors

Where valuations are required ~~pursuant to rules 5.01, 5.02 and 5.03 under Chapter 5 of these Exchange Listing Rules or pursuant to under paragraph 10(b) of this Practice Note and where the primary method for valuing the relevant a property is the residual method, the Exchange may require the directors of the relevant party 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~~ that statement the directors or, in the case of for a connected transaction, the independent ~~board of directors,~~ must shall:~~

...

...

Practice Note 16

to the Rules Governing the Listing of Securities
(the "Exchange Listing Rules")

Issued pursuant to rule 1.06 of the Exchange Listing Rules

EXCLUSION OF PROPERTY VALUATION REPORTS ON PROPERTY UNDER OPERATING LEASE FROM LISTING DOCUMENTS AND CIRCULARS

~~[Repealed [date]]~~

~~1. Definitions~~

~~Terms used in this Practice Note which are defined or interpreted in the Exchange Listing Rules shall have the same meaning as in the Exchange Listing Rules.~~

~~2. Introduction~~

~~Rules 5.01 to 5.04 inclusive of the Exchange Listing Rules provide for when valuations are required to be included in any listing document or circular to shareholders.~~

~~This Practice Note is intended to exclude the detailed valuation reports on property under operating lease from any listing document and any circular to shareholders provided that certain criteria set out below are satisfied. This Practice Note should be read in conjunction with Chapter 5 and Practice Note 12 of the Exchange Listing Rules.~~

~~3. Valuation Reports~~

- ~~(a) Subject to 3(b) below, new applications or listed issuers are required to continue to set out full valuation reports in respect of those properties legally and beneficially owned by them in the listing documents or circulars to shareholders.~~
- ~~(b) New applicants or listed issuers are not required to include the full text of a valuation report in respect of property under operating lease (as defined below) in listing documents or circulars to shareholders (as the case may be) provided that:-~~
- ~~(1) the value of the said interest in land or buildings has been determined by an independent qualified valuer as required by the Exchange Listing Rules;~~
 - ~~(2) valuation of the interest as determined by the valuer is zero;~~
 - ~~(3) the report of the independent valuer setting out the information required by paragraph 34(2) of the Third Schedule of the Companies Ordinance and/or the Exchange Listing Rules is made available to the Exchange before the issue of the listing document or circular and is referred to in the listing document or circular and made available for public inspection; and~~
 - ~~(4) a summary of all the interests in land and buildings covered by this exemption is included in the listing document or circular.~~

~~For the purpose of this exemption, an "operating lease" is a lease:-~~

- ~~(i) whereby an interest in the land or buildings is leased to the issuer and such lease or tenancy confers on the lessee no unilateral right to transfer, sublet,~~

~~mortgage or otherwise dispose of the interest in the said property without the consent of the lessor;~~

~~(ii) whose leasehold term is for a period substantially less than the estimated useful economic life of the said property; and~~

~~(iii) where the substantive risks and rewards of ownership of the said property have not been or are not proposed to be transferred from the lessor to the lessee.~~

~~(c) For all properties in 3(a) and 3(b) above, new applicants or listed issuers are required in accordance with the Exchange Listing Rules to submit full valuation reports to the Listing Division for the purpose of vetting and listing; and such valuation reports will form part of those documents which will be made available for inspection by the public.~~

4. This Practice Note takes effect from 3rd October, 1997.

Hong Kong, 29th September, 1997

Appendix 1

Contents of Listing Documents

Part A

Equity Securities

...

Financial information about the group and the prospects of the group

...

34. (1) ...

(2) ...

.... Any valuation of assets (~~other than except property interests (as defined in rule 5.01(3) land and buildings)~~ or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also be~~ is regarded as a profit forecast.

...

39. ~~Where required by Chapter 5, a valuation report on the issuer's interests in land or buildings in accordance with that Chapter. [Repealed [date]]~~

...

Information on property interests

51A. Where required by Chapter 5, information set out in that Chapter.

...

NOTES

...

Note 6 Where an issuer has caused any property ~~interests—assets~~ to be valued (in accordance with ~~Chapter 5~~Rule 5.01) or has caused any valuation to be made of any other tangible assets and included such a valuation in the prospectus relating to its initial public offer, the issuer is required to state in its prospectus, by way of note to the adjusted net tangible asset statement, the additional depreciation (if any) that would be charged against the income statement had such assets been stated at valuation.

...

Appendix 1

Contents of Listing Documents

Part B

Equity Securities

...

Financial information about the group and the prospects of the group

...

29. (1) ...
(2) ...

.... Any valuation of assets (~~other than~~ except property interests (as defined in rule 5.01(3))~~and and buildings~~) or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also~~ be is regarded as a profit forecast.

...

Appendix 1

Contents of Listing Documents

Part C

Debt Securities

...

Financial information about the group and prospects of the group

...

41. (1) ...

(2) ...

(3) ...

.... Any valuation of assets (~~other than~~ except property interests (as defined in rule 5.01(3)-land and buildings)) or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also~~ be is regarded as a profit forecast.

(4) ...

...

44. ~~Where required by Chapter 5, a valuation report on the issuer's interests in land or buildings in accordance with that Chapter. In any event a summary of all significant properties recorded as assets in the balance sheet must be included. [Repealed [date]]~~

...

Information on property interests

51A. Where required by Chapter 5, information set out in that Chapter.

...

Appendix 1

Contents of Listing Documents

Part E

Depository receipts

...

Financial information about the group and the prospects of the group

...

34. (1) ...

(2) ...

.... Any valuation of assets (~~other than~~ except property interests (as defined in rule 5.01(3)-land and buildings)) or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also~~ be is regarded as a profit forecast.

...

39. ~~Where required by Chapter 5, a valuation report on the issuer's interests in land or buildings in accordance with that Chapter. [Repealed [date]]~~

...

Information on property interests

74A. Where required by Chapter 5, information set out in that Chapter.

...

NOTES

...

Note 6 Where an issuer has caused any property interests ~~assets~~ to be valued (in accordance with Chapter 5~~rule 5.04~~) or has caused any valuation to be made of any other tangible assets and included such a valuation in the prospectus relating to its initial public offer, the issuer is required to state in its prospectus, by way of note to the adjusted net tangible asset statement, the additional depreciation (if any) that would be charged against the income statement had such assets been stated at valuation.

...

Appendix 1

Contents of Listing Documents

Part F

Depository receipts

...

Financial information about the group and the prospects of the group

...

- 25. (1) ...
- (2) ...

.... Any valuation of assets (~~other than~~ except property interests (as defined in rule 5.01(3))~~and buildings~~) or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also~~ be is regarded as a profit forecast.

...

Appendix 16

DISCLOSURE OF FINANCIAL INFORMATION

...

- 27. If an ~~listed~~ issuer has caused valued any property interests ~~assets~~ to be valued (in accordance with under Chapter 5~~Rule 5.04~~) or has caused any valuation to be made of valued any other tangible assets and included such a valuation in the prospectus relating to its initial public offer and those assets are not stated at ~~such~~ valuation (or at subsequent valuation) in its first annual accounts published after listing, then the ~~listed~~ issuer is required to disclose the following additional information in its first annual report published after listing:–

...

...

Main Board Appendix 26

[Types of properties]

(E.g. properties for investments, for sale, held for development or under development)

[Geographical region]

<u>Use and name/brief description of projects</u>	<u>Total/Planned Gross Floor Area</u>	<u>Leasable/Saleable area</u>	<u>Number of rooms/units</u>	<u>Number of car parking spaces</u>	<u>Attributable to the group</u>	<u>Terms of tenure (year of leasehold expiry)</u>	<u>Construction commencement date (if under development)</u>	<u>Year of completion/Expected completion date</u>	<u>Development cost, where property is being developed (as required under 5.06(3)(e))</u>	<u>Average occupancy rate</u>	<u>Average effective rent (as required under Rule 5.06(2))</u>	<u>Attributable independent valuation as at [date]</u>
---	---------------------------------------	-------------------------------	------------------------------	-------------------------------------	----------------------------------	---	--	--	---	-------------------------------	--	--

For example:

Mixed use

[Name of project]

- Residential
- Retail
- Office

Hotel

Office

Residential

Retail

Serviced apartments

APPENDIX II.B: GEM RULE AMENDMENTS

Chapter 8

GENERAL

VALUATION OF AND INFORMATION ON PROPERTIES

Definitions

8.01 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 listing document after deducting any accumulated depreciation (amortisation) and accumulated impairment losses. For an issuer, the amount at which an asset is recognised in its latest published audited consolidated accounts or latest published interim report (whichever is more recent) after deducting any accumulated depreciation (amortisation) and accumulated impairment losses;

Note: If an acquisition is made after the latest consolidated audited accounts, the acquisition cost should be used.

- (2) “property activities” mean holding (directly or indirectly) and/ or development of properties for letting or retention as investments, or the purchase or development of properties for subsequent sale, or for subsequent letting or retention as investments. It does not include holding of properties for own use;

Notes:

(1) Any other property interest is classified as “non-property activities”.

(2) The listing document date must be used as the timing reference point to categorise a property interest into property activity or non-property activity.

- (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 or complex;

(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 properties, structures or facilities comprising a property development project (even if there are different phases);
 - (e) one or more properties held for investment within one complex;
 - (f) one or more properties, structures or facilities located contiguously to each other or located on adjoining lots and used for the same or similar operational / business purposes;
or
 - (g) a project or phases of development presented to the public as one whole 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 in the listing document. 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 (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 its total assets; and
- (b) that do not form part of its (or, for debt securities, the guarantor’s) 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 applicant’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 applicant's circumstances. The valuation report setting out the information required by these Rules must be available for public inspection;

Note: The summary form of disclosure may be varied based on the applicant's circumstances. An applicant must include additional information necessary for investors to make an informed decision.

- (b) for property interests of an applicant'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, 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. The overview may include property interests voluntarily valued and disclosed separately in the listing document; and
- (d) the general information in rule 8.36, if it applies.

8.01C Rules 8.01A and 8.01B (except rules 8.01B(c) and 8.01B(d)) do not apply to property interests ancillary to the exploration for and/or extraction of Natural Resources (as defined in Chapter 18A) if the listing document includes a valuation that encompasses these Natural Resources and ancillary property interests, and together have been valued as a business or as an operating entity by a Competent Evaluator (as defined in Chapter 18A).

Note: Rules 8.01A(b) and 8.01B(b) to (d) apply to property interests ancillary to the exploration for and/or extraction of Natural Resources if the listing document does not include a valuation of all the ancillary property interests conducted by a Competent Evaluator.

Requirements for an issuer

8.02 ~~In the case of~~ For an acquisition or disposal of any property interest, or ~~of~~ a company whose assets consist solely or mainly of property, where any of the percentage ratios (as defined in rule 19.04(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 disposal (see rules 19.66(12) ~~and 19.69(3)~~), ~~unless, in the case of an acquisition, the interest in the property is acquired from the Hong Kong Government (or, at the discretion of the Exchange, a body related to the Hong Kong Government), in any such case, at a public auction or by sealed tender~~ unless rule 8.02A applies.

~~Note: For the purposes of~~ In this rule and in rule 8.03, a circular issued "in connection with an acquisition" includes a listing document issued ~~on~~ 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 but the~~ ~~such~~ a 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.

8.02A Valuation of a property interest is not required if:

- (a) it is acquired from the Hong Kong Government (or, at the discretion of the Exchange, a body related to the Hong Kong Government) at a public auction or by sealed tender; or
- (b) the property is acquired under a Qualified Property Acquisition (as defined in rule 19.04(10C)); or
- (c) the company being acquired or disposed of is listed on the Exchange, except if it is a connected transaction; or
- (d) subject to rule 8.03, 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 18A) and the circular includes a valuation that encompasses these Natural Resources and ancillary property interests, and together have been valued as a business or as an operating entity by a Competent Evaluator (as defined in Chapter 18A); or

Note: Rule 8.02 applies to property interests ancillary to the exploration for and/or extraction of Natural Resources if the circular does not include a valuation of all the ancillary property interests conducted by a Competent Evaluator.

- (e) subject to rule 8.03, 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.

8.02B Subject to rule 8.03, the circular issued under rule 8.02 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 8.02 except where summary disclosure is allowed; and
 - (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 to be 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

Note: The summary form of disclosure may be varied based on the issuer's circumstances. An issuer must include additional information necessary for investors to make an informed decision.

- (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. The overview may include property interests voluntarily valued and disclosed separately in the circular;
 - (c) for a company listed on the Exchange whose assets consist solely or mainly of property, an overview of property interests, 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 8.36, if it applies.
- 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.
- 8.03A ~~These requirements do not apply if the property is acquired under a Qualified Property Acquisition (as defined in rule 19.04(10C)). [Repealed [date]]~~

Valuation report requirements

Basic contents

...

- 8.05 ~~Subject to rule 8.06, a~~ 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 (if any); ~~and~~
 - (l) the basis of and approach to valuation for the property interest;
 - (m) when the site was last inspected;
 - (n) summary of investigation carried out, 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;

- (s) names and qualifications of persons who carried out the site inspection; and
- (t) any other matters which may materially affect the value;

...

Property under operating leases

8.06 ~~New applicants or listed issuers are not required to include the full text of a valuation report in respect of any interest in land or buildings under an operating lease (as defined in rule 8.07) in listing documents or circulars to shareholders (as the case may be) provided that:—~~

- ~~(1) the value of the said interest in land or buildings has been determined by an independent qualified valuer as required by the GEM Listing Rules;~~
- ~~(2) valuation of the interest as determined by the valuer is zero;~~
- ~~(3) the report of the independent valuer setting out the information required by paragraph 34(2) of the Third Schedule of the Companies Ordinance and/or the GEM Listing Rules is made available to the Exchange before the issue of the listing document or circular and is referred to in the listing document or circular and made available for public inspection; and~~
- ~~(4) a summary of all the interests in land and buildings covered by this rule is included in the listing document or circular. [Repealed [date]]~~

8.07 ~~For the purpose of rule 8.06, an “operating lease” is a lease:—~~

- ~~(1) whereby an interest in the land or buildings is leased to the issuer and such lease or tenancy confers on the lessee no unilateral right to transfer, sublet, mortgage or otherwise dispose of the interest in the said property without the consent of the lessor;~~
- ~~(2) whose leasehold term is for a period substantially less than the estimated useful economic life of the said property; and~~
- ~~(3) where the substantive risks and rewards of ownership of the said property have not been or are not proposed to be transferred from the lessor to the lessee. [Repealed [date]]~~

8.08 ~~For properties referred to in rule 8.06, new applicants or listed issuers are required in accordance with the GEM Listing Rules to submit full valuation reports to the Exchange for the purpose of vetting and listing; and such valuation reports will form part of these documents which will be made available for inspection by the public. [Repealed [date]]~~

...

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 A listing document, or a circular issued under rules 8.02 and 8.03, 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 if the property relates to property activities. 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 property is held. For example, owned or leased. If leased, the remaining term of the lease;

(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) plans for construction, renovation, improvement or development of the property and estimated associated costs;

(i) plans to dispose of or change the use of the property; and

(j) any other information considered material for investors.

Chapter 11
EQUITY SECURITIES
QUALIFICATIONS FOR LISTING

...

Property-related matters

11.16 Property interests of an applicant's property activities ~~A new applicant that is a property company~~ must have, in respect of a substantially major portion of its PRC properties, long-term title certificates and/or, in respect of a substantially major portion of its properties not situated in the PRC, other appropriate evidence of title, regardless of whether such properties are completed or still under development.

Note: For the purposes of rules 11.16 to 11.19:—

- (1) ~~a "property activity company" has the same definition as defined in rule 8.01(2) is a company whose non-cash assets consist solely or mainly of properties or interests in properties or interests in companies or entities whose non-cash assets consist solely or mainly of properties and whose income is mainly derived from those properties; and~~

...

...

Chapter 12
EQUITY SECURITIES
APPLICATION PROCEDURES AND REQUIREMENTS

...

After notification of approval in principle but before the date of issue of the listing document

12.24 The following must be lodged with the Exchange by an ~~new~~ applicant as soon as practicable after the hearing of the application by the Listing Division but on or before the date of issue of the listing document:—

...

- (6) ...

Note: The Exchange must be passed a certified copy of any valuation report in respect of properties ~~held under operating leases~~ notwithstanding that the full text of such valuation report may not be required to be included in the listing document under Chapter 8, ~~as referred to in rule 8.06.~~

...

...

Chapter 14
EQUITY SECURITIES
LISTING DOCUMENTS

...

Profit forecast

...

14.29 ...

.... Any valuation of assets (~~other than~~ except for property interests (as defined in rule 8.01(3) land and buildings)) or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also be~~ is regarded as a profit forecast.

...

Chapter 18
EQUITY SECURITIES
FINANCIAL INFORMATION

...

18.35 If the ~~listed~~ issuer has caused any property interests ~~assets~~ to be valued (~~in accordance with under Chapter 8 Rule 8.04~~) or has caused any valuation to be made of any other tangible assets and included such a valuation in the prospectus relating to the initial public offer of shares in the ~~listed~~ issuer and those assets are not stated at such valuation (or at subsequent valuation) in its first annual accounts published after listing, then the ~~listed~~ issuer is required to disclose the following additional information in its first annual report published after listing:–

...

...

Chapter 19
EQUITY SECURITIES
NOTIFIABLE TRANSACTIONS

...

Profit forecast in an announcement

19.61 Any valuation of assets (~~other than~~ except for property interests (as defined in rule 8.01(3) land and buildings)) or businesses acquired by an ~~listed~~ issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also be~~ is regarded as a profit forecast.

...

Major transaction circulars

19.66 A circular relating to a major transaction must contain the following:—

...

- (12) where required by Chapter 8, a ~~valuer's report~~ information under that Chapter on the property interest being acquired or disposed of by the listed issuer;

...

...

Inability to access information to compile circulars for major transactions or very substantial acquisitions

19.67A(1) ...

(2) ...

- (b) where information required for the enlarged group is not available, to include the following information regarding the ~~listed issuer~~:

...

- (iii) ~~valuation report on land and/or buildings (this is applicable only to very substantial acquisitions, see rule 19.69(3))~~ [Repealed [date]];

...

(c) ...

(3) ...

...

Very substantial acquisition circulars and reverse takeover listing documents

19.69 A circular issued ~~in relation to~~ for a very substantial acquisition or a listing document issued ~~in relation to~~ for a reverse takeover must contain:—

(1) ~~in respect of a listing document issued in relation to~~ for a reverse takeover,

- (a) the information required under rule 19.66 (~~save except for~~ the information required under rules 19.66(3), 19.66(4), 19.66(11), and 19.66(12)) and ~~under~~ rule 19.67(3); ~~and~~

- (b) the information required under Appendix 1, Part A, if it applies applicable, except paragraphs 8 and 15(3) (in respect of the 12 months ~~preceding~~ before the issue of the circular or listing document) and 20(1). For paragraph 36, the statement on sufficiency of working capital must take into account the effect of the transaction; and

(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 (except for 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:—

...

- (d) where the consolidated assets and liabilities of the issuer are substantially the same as those ~~the consolidated assets and liabilities~~ of the ~~listed~~ issuer or issuers whose securities have been exchanged, the requirement for a valuation and other information on ~~of~~ all the issuer's property interests in land or buildings (see paragraph ~~3950A~~ of Part A of Appendix 1 and Chapter 8 rule 8.04) will normally only be required by the Exchange if:—

- ...
- (e) any valuations required to be included by paragraph ~~39~~50A of Part A of Appendix 1 and Chapter 8~~rule 8.04~~ (as modified by rule 24.09(5)(d)) need only be summarised in the listing document, ~~provided that if~~ a copy of the full valuation report is offered for inspection;
- ...

Appendix 1

CONTENTS OF LISTING DOCUMENTS

Part A

Equity Securities

...

Financial information about the group and the prospects of the group

...

34. (1) ...

.... Any valuation of assets (~~other than~~ except property interests (as defined in rule 8.01(3)) ~~land and buildings~~) or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also be~~ is regarded as a profit forecast.

(2) ...

...

39. ~~Where required by Chapter 8, a valuation report on the issuer's interests in land or buildings in accordance with that Chapter. [Repealed [date]]~~

...

Information on property interests

50A. Where required by Chapter 8, information set out in that Chapter.

...

NOTES

...

11. *Where an issuer has caused any property interests ~~assets~~ to be valued (in accordance with Chapter 8~~Rule 8.04~~) or has caused any valuation to be made of any other tangible assets and included such a valuation in the prospectus relating to its initial public offer, the issuer is required to state in its prospectus, by way of note to the adjusted net tangible asset statement, the additional depreciation (if any) that would be charged against the income statement had such assets been stated at valuation.*

...

Appendix 1

CONTENTS OF LISTING DOCUMENTS

Part B

Equity Securities

...

Financial information about the group and the prospects of the group

...

29. (1) ...

(2) ...

... Any valuation of assets (~~other than~~ except property interests (as defined in rule 8.01(3) land and buildings) or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows ~~will also~~ be is regarded as a profit forecast.

(3) ...

...

Appendix 1

CONTENTS OF LISTING DOCUMENTS

Part C

Debt Securities

...

Financial information about the group and prospects of the group

...

41. (1) ...

(2) ...

(3) ...

.... Any valuation of assets (~~other than~~ except property interests (as defined in rule 8.01(3) land and buildings) or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows will also be regarded as a profit forecast.

(4) ...

(5) ...

...

44. ~~Where required by Chapter 8, a valuation report on the issuer's interests in land or buildings in accordance with that Chapter. In any event a summary of all significant properties recorded as assets in the balance sheet must be included. [Repealed [date]]~~

...

Information on property interests

55. Where required by Chapter 8, information set out in that Chapter.

GEM Appendix 19

[Types of properties]

(E.g. properties for investments, for sale, held for development or under development)

[Geographical region]

<u>Use and name/brief description of projects</u>	<u>Total/Planned Gross Floor Area</u>	<u>Leasable/Saleable area</u>	<u>Number of rooms/units</u>	<u>Number of car parking spaces</u>	<u>Attributable to the group</u>	<u>Terms of tenure (year of leasehold expiry)</u>	<u>Construction commencement date (if under development)</u>	<u>Year of completion/Expected completion date</u>	<u>Development cost, where property is being developed (as required under 5.06(3)(e))</u>	<u>Average occupancy rate</u>	<u>Average effective rent (as required under Rule 5.06(2))</u>	<u>Attributable independent valuation as at [date]</u>
---	---------------------------------------	-------------------------------	------------------------------	-------------------------------------	----------------------------------	---	--	--	---	-------------------------------	--	--

For example:

Mixed use

[Name of project]

Residential
Retail
Office

Hotel

Office

Residential

Retail

Serviced apartments

APPENDIX III: LIST OF RESPONDENTS

Market practitioners

- 1 American Appraisal China Limited
- 2 BOCI Asia Limited
- 3 CB Richard Ellis Limited
- 4 Charltons
Charltons on behalf of:
 - 5 Access Capital Limited
 - 6 Anglo Chinese Corporate Finance, Limited
 - 7 CIMB Securities (HK) Ltd.
 - 8 Quam Limited
 - 9 Somerley Limited
- 10 China International Capital Corporation Hong Kong Securities Limited
- 11 Cleary Gottlieb Steen & Hamilton (Hong Kong)
- 12 Davis Polk & Wardwell, Hong Kong Solicitors
- 13 Deacons
- 14 Ernst and Young
- 15 Herbert Smith
- 16 KPMG
- 17 Latham & Watkins
- 18 Piper Jaffray Asia Limited
- 19 RHL Appraisal Ltd
- 20 SBI E2-Capital (HK) Limited
- 21 Skadden, Arps, Slate , Meager & Flom ("Skadden")
Skadden on behalf of:
 - 22 Citigroup Global Markets Asia Limited
 - 23 Credit Suisse (Hong Kong) Limited
 - 24 Goldman Sachs (Asia) L.L.C.
 - 25 The Hongkong and Shanghai Banking Corporation Limited
 - 26 J.P. Morgan Securities (Asia Pacific) Limited
 - 27 Macquarie Capital Securities Limited
 - 28 Merrill Lynch Far East Limited
 - 29 Morgan Stanley Asia Limited

- 30 UBS AG, Hong Kong Branch
- 31 Slaughter and May
- 32-38 7 market practitioners requesting anonymity

Professional associations

- 39 ACCA (Association of Chartered Certified Accountants) Hong Kong
- 40 The Chamber of Hong Kong Listed Companies
- 41 The Hong Kong Institute of Chartered Secretaries
- 42 The Hong Kong Institute of Surveyors
- 43 Hong Kong Institute of Certified Public Accountants
- 44 The Law Society of Hong Kong
- 45 RICS Asia (Royal Institution of Chartered Surveyors)

Issuers

- 46 Cheung Kong (Holdings) Limited
- 47-49 3 issuers requesting anonymity

Individuals

- 50 Kam Kin Pong
- 51 Suen Chi Wai
- 52 One individual requesting anonymity