

CB Richard Ellis Limited

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Dear Sir,

Re: Joint Consultation Paper on Proposed Changes to Property Valuation Requirements

We have thoroughly reviewed and examined the proposed changes suggested by the Securities and Futures Commission and the Stock Exchange of Hong Kong jointly (the "Regulators") on the property valuation requirements incorporated into the Listing Rules. As a response, we have summarized our views in the following paragraphs.

Deciding Factors of the Paper

Materialism

Materialism has always been one of the most critical factors in property valuations, and it is meaningless to include excessive details of properties if they do not constitute a part of the company's business operation.

According to the Paper, it is suggested that materialism dictates that property valuations are required if the value of the properties is above a certain percentage of total assets of the company, in which the threshold is to be calculated based on the carrying amount on the company's balance sheet. The proposed threshold is 10% to 15% according to the property activities as defined in the Paper, and anything above it would require a valuation to be carried out.

This is where the problem comes in. Most companies book their properties at historical cost on their balance sheet, and there is no such requirement to have the properties marked to the market value. Applying the 10% to 15% rule would inevitably prevent the market value of much of the company's properties from being properly disclosed to the general public. This potential problem is particularly true for emerging markets such as the People's Republic of China (the "PRC"), where property values have grown so fast in the past number of years. The low historical cost being carried on the company's balance sheet does not, by any standard, reflect the true market value of such properties.

Developing Economies

It appears that the Regulators are intended to exclude valuation of standardized buildings and structures that are ancillary properties as a part of the company's income-producing business operation. After careful examination of the possible outcomes, and because of the following reason, we believe Regulators should think twice before implementing it. In emerging markets like the PRC, India, Russia and etc, sometimes the true ownership of a piece property cannot be ascertained by a simple search through a trusted and reliable source like it is in Hong Kong. Notwithstanding the need to determine the market value of the properties, the valuation exercise provides investors and other stakeholders comfort that a particular piece of property do actually exist at the listed location, matches the size and other descriptions it claimed, as well as showing that the company does have good title to it.

Fair Value in Audited Accounts

Fair value, as defined by accountants, is not equivalent to market value as it is understood by valuers. Having said that, figures prepared under different standards and valuation methodologies are not supposed to be correlated. The differing professional standards and valuation methodologies require valuation of properties to be carried out by professional valuers, who are experts in the field.

Transparency

Transparency is by no means equal across different jurisdictions, and if Regulators extend the exemption of valuation for property interests acquired from the Hong Kong Government at a public auction or by sealed tender, to public auction or sealed tender in any jurisdiction, the market value of properties may be distorted given the low transparency of some jurisdictions. Within jurisdictions with lower transparency, the transacted price in public auctions may deviate from its market value as a result of inefficient market mechanisms.

Summary

- Materiality based on a certain percentage threshold is problematic and valuing properties this way would result in relatively major assets of large corporations being ignored.
- Basing a property's value on its carrying amount is again problematic. The carrying amount does not reflect market value and the real market situation. The actual value of a property would be underestimated during the positive outlook of the property market. Alternatively, the actual value of a property would be overestimated when the property market is not doing well or during economic downturn, which may mislead investors.
- For the sake of protecting shareholding by providing timing and most accurate information in regards of the company's properties, property interests in emerging markets should not be exempted from having a valuation performed.
- Difference in fair value and market value needs to be taken into consideration as they are not equivalent.

Our Proposals

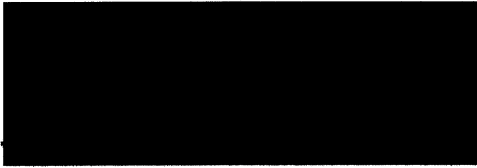
- Leasehold properties having three years or less unexpired term should not require a valuation to be done provided they are not material to the ongoing business operation of the company.
- For valuation on leasehold properties in remote areas which are unimportant to the applicant's operation is not beneficial to investors, exemption can be granted to those properties.
- Properties which have not been (re)valued within 3 months of the date of listing should be (re)valued.
- Valuations at fair value should not be used in any public circular purpose valuations for the difference of standard of value and premises of value.
- For a very substantial acquisition, only the subject company's property interests need to be valued.

Apart from the above, we believe it would be counter-intuitive to change what is working well and made Hong Kong the first ranked IPO market (in terms of total amount raised) in the world 2 years in a row in order to compete with other overseas jurisdictions.

Moreover, we believe it is somehow unfair to say that unnecessarily costs and unduly burdensome is caused by property valuation and the information provided may not benefit investors.

Thank you for your attention and feel free to contact the undersigned should there be any questions or concerns.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited



Part B Consultation Questions

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

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

Part I: Proposals To Amend Property Valuation Requirements For Applicants

Proposals for all Applicants

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

Yes

No

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

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

Yes

No

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

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

Yes

No

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

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

Yes

No

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

5. In addition to the information mentioned in paragraph 74 of the Consultation Paper, is there any other information that should be disclosed in a valuation report that is not required at present by the Listing Rules? Also, is there any information that is no longer required to be disclosed in a valuation report?

Yes

No

If your answer is “Yes”, please state.

6. Do you agree with the proposal to maintain the effective date at which the property was valued under Rule 5.07 at not more than 3 months before the date of the listing document?

Yes

No

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

7. Do you think that the prospectus law should retain requirements for property valuations in line with the proposals in this paper? Alternatively is it sufficient for the prospectus law to rely on the general disclosure obligation under the Companies Ordinance?

Yes

No

Please give reasons.

The prospectus law should retain requirements for property valuations in line with the proposals in this paper and it is sufficient for the prospectus law to rely on the general disclosure obligation under the Companies Ordinance.

Proposals for Property Activities

8. Do you agree not to require property valuations and disclosing valuation information if the carrying amount of a property interest of an applicant's property activities is below a percentage of its total assets?

Yes

No

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

The carrying amount does not reflect market value and the real market situation. The actual value of a property would be underestimated during the positive outlook of the property market. Alternatively, the actual value of a property would be overestimated when the property market is not doing well or during economic downturn, which may mislead investors. Moreover, materiality based on a certain percentage threshold is problematic and valuing properties this way may result in relatively major assets of large corporations being ignored.

9. Do you agree not to require valuation of a property interest with carrying amount below 1% of total assets?

Yes

No

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

Same as Q.8.

10. Do you agree that the total carrying amount of property interests that do not require valuation cannot exceed 10% of the applicant's total assets?

Yes

No

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

Same as Q.8.

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

Yes

No

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

Same as Q.8.

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

Yes

No

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

Same as Q.8.

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

Yes

No

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

The form of summary disclosure is too general and cannot show the characteristics of different type of property detailly.

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

Yes

No

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

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

Yes

No

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

For the sake of protecting shareholders, it is necessary to disclose the relevant information to the public.

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

Yes

No

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

17. Do you agree that the proposed Listing Rule amendments in Appendices IV.A and IV.B of the Consultation Paper will implement the proposals for property activities?

Yes

No

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

Proposals for Non-Property Activities

18. Do you agree that a full text of valuation report is required if the carrying amount of a property interest is or is above 15% of an applicant’s total assets?

Yes

No

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

Same as Q.8.

19. Do you agree that the 15% threshold should be calculated using:

(a) the carrying amount of a property interest; and

(b) total assets

reflected in the accountants’ report of the applicant?

Yes

No

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

Same as Q.8.

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

Yes

No

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

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

Yes

No

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

Only including an overview is too general and cannot show the details of property interests.

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

Yes

No

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

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

Yes

No

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

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

Yes

No

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

25. Do you agree that the proposed Listing Rule amendments in Appendices IV.A and IV.B of the Consultation Paper will implement the proposals for non-property activities?

Yes

No

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

Part II: Proposals To Amend Property Valuation Requirements For Issuers

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

Yes

No

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

27. Do you agree that it is unnecessary to introduce different valuation requirements for acquisition or disposal of non-property activities and property activities for issuers?

Yes

No

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

28. Do you agree with the proposal to remove valuation requirements if the company being acquired or disposed of is listed on the Exchange, except for a connected transaction (see paragraph 123 of the Consultation Paper)?

Yes

No

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

29. Do you agree that an overview of property interests not covered by a valuation report be disclosed in the circular?

Yes

No

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

Same as Q.21.

30. Do you agree not to require property valuations and disclosing valuation information for acquisition or disposal of an unlisted company if the carrying amount of a property interest is below a percentage of the issuer’s total assets?

Yes

No

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

Same as Q.8.

31. Do you agree not to require valuation of property interest with carrying amount below 1% of the issuer’s total assets?

Yes

No

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

Same as Q.8.

32. Do you agree that the total carrying amount of property interests that do not require valuation cannot exceed 10% of the issuer's total assets?

Yes

No

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

Same as Q.8.

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

Yes

No

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

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

Yes

No

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

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

Yes

No

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

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

Yes

No

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

Same as Q.8.

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

Yes

No

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

Same as Q.13.

38. Do you agree that an overview of property interests not covered by a valuation report be disclosed in the circular?

Yes

No

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

Same as Q.29.

39. Do you agree that for an acquisition or disposal of an unlisted company, valuations will not be required for property interests ancillary to mining activities if the circular includes a valuation by an independent professionally qualified valuer of the associated mineral or petroleum assets or resources?

Yes

No

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

40. Do you agree with the proposal relating to a very substantial acquisition in paragraph 121 of the Consultation Paper?

Yes

No

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

41. Do you agree with the proposal to retain the existing valuation requirements for connected transactions?

Yes

No

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

42. Do you agree that valuation will continue to be required if the connected transaction involves an acquisition or disposal of a company listed on the Exchange?

Yes

No

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

43. Do you agree with the proposals relating to connected transactions in paragraph 125 of the Consultation Paper?

Yes

No

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

44. In addition to the information mentioned in paragraph 74 of the Consultation Paper, is there any other information that should be disclosed in a valuation report that is not required at present by the Listing Rules? Also, is there any information that is no longer required to be disclosed in a valuation report?

Yes

No

If your answer is “Yes”, please state.

45. Do you agree with the proposal to maintain the effective date at which the property was valued under Rule 5.07? (Please note that the same question has been raised for applicants in question 6).

Yes

No

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

46. Do you agree that the proposed Listing Rule amendments in Appendices IV.A and IV.B of the Consultation Paper will implement the proposals for issuers?

Yes

No

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

- End -