

**JOINT CONSULTATION PAPER**

**ON**

**PROPOSED CHANGES TO**

**PROPERTY VALUATION REQUIREMENTS**

**3 December 2010**



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## How to respond to this Consultation

We, the Securities and Futures Commission (SFC) and the Stock Exchange of Hong Kong Ltd. (the Exchange), a wholly owned subsidiary of Hong Kong Exchanges and Clearing Ltd. (HKEx), invite written comments on the proposals in this paper by **11 February 2011**. Responses should, if possible, be made by completing and returning the questionnaire available at <http://www.hkex.com.hk/eng/newsconsul/mktconsul/documents/cp201012q.doc>, either to the SFC or the Exchange, by one of the following methods:-

To the SFC:

By mail or  
hand delivery  
to: Corporate Finance Division  
Securities and Futures Commission  
8/F Chater House  
8 Connaught Road Central  
Hong Kong

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

By fax to: (852) 2810-5385

By online  
submission at: <http://www.sfc.hk/sfc/html/EN/speeches/consult/consult.html>  
(or, enter into the subsection "Consultation Papers and  
Conclusions" under the section "Speeches, Publications  
and Consultations" on the SFC's website at  
<http://www.sfc.hk>)

By email to: [PropertyValuation@sfc.hk](mailto:PropertyValuation@sfc.hk)

Please mark in the subject line:

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

To the Exchange:

By mail or  
hand delivery  
to: Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
12th Floor, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

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

By fax to: (852) 2524-0149

By email to: [response@hkex.com.hk](mailto:response@hkex.com.hk)

Please mark in the subject line:

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

Our submission enquiry number is (852) 2840-3844.

Our policy on handling personal data is in Appendix V and the questionnaire.

We invite views on the proposals, and where appropriate, reasons for the answers. Respondents are reminded that we will publish responses on a named basis in the intended consultation conclusions. If you do not wish your name to be disclosed to members of the public, please state so when responding to this paper.

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## EXECUTIVE SUMMARY

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1. This paper invites views on proposals to amend the property valuation requirements discussed in this paper.
2. The proposals aim to remove unnecessary burden on applicants for listing and issuers. They also enhance the quality of information provided to investors by requiring meaningful information to be disclosed.

### **Proposals relating to property valuation requirements for applicants**

3. There is a general disclosure obligation in the Companies Ordinance<sup>1</sup> and the Listing Rules<sup>2</sup> 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.
4. The Companies Ordinance requires a company to include in its prospectus a valuation report for all its interests in land or buildings if the interests shown in the company's last accounts exceed 10% of its assets or have a value of not less than HK\$3,000,000. The Listing Rules state that an applicant must include valuations of and information on all its interests in land or buildings in its listing document.
5. We have received comments that, in some cases, these property valuation requirements may be unnecessarily costly and unduly burdensome, and the information provided may not benefit investors.
6. Removing property valuation requirements for non-property applicants from the Listing Rules is our long term goal. However, we cannot achieve this goal until the Companies Ordinance is amended. The SFC considers that prescriptive property valuation requirements may prove unnecessary under the prospectus law in the long term. Until then, subject to the results of this market consultation, the SFC proposes to issue a class exemption notice under sections 38A(2) and 342A(2) of the Companies Ordinance to give effect to the proposals relating to property valuation requirements for applicants. The class exemption notice would be subject to negative vetting by the Legislative Council.
7. In view of the general disclosure obligation under the Companies Ordinance and the Listing Rules, an applicant must disclose information regarding any material properties. The general disclosure obligation also applies to issuers under the Listing Rules. The information provided must be meaningful for investors to assess the company. We expect applicants, issuers and sponsors to consider all facts and circumstances to determine if a property is material, and, if it is, to disclose property valuation and/or relevant information.

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<sup>1</sup> Paragraph 3 of the Third Schedule to the Companies Ordinance, "Matters to be specified in prospectus and reports to be set out therein".

<sup>2</sup> See Main Board Listing Rule 11.07.

8. In addition to the disclosure required by the general disclosure obligation, we consider that different property valuation requirements should apply to business activities involving property development and investment (“property activities”) and other business activities (“non-property activities”) to reflect the different business nature. We summarise below the proposals for property activities and non-property activities.

### **Proposals for property activities**

9. We propose that an applicant will be required to obtain property valuation reports and disclose valuation information for all property interests of its property activities. However, the property interests with a carrying amount below 1% of the applicant's total assets will not need to be valued. The total carrying amount of property interests not valued must not exceed 10% of the applicant's total assets.
10. Full text of valuation reports for valued property interests will be required to be disclosed in the listing document except where summary disclosure is allowed.
11. We propose to allow summary disclosure of valuation reports if the market value of a property interest is below 5% of the applicant's total property interests under property activities that are required to be valued. The detailed valuation reports will be available for public inspection.
12. We propose to require an overview of property interests not covered by a valuation report to be included in the listing document.

### **Proposals for non-property activities**

13. We propose that an applicant will be required to obtain property valuation reports and disclose valuation information for property interests of its non-property activities for each property interest with a carrying amount of 15% or more of its total assets.
14. Full text of valuation reports for valued property interests will be required to be disclosed in the listing document. An overview of property interests not covered by a valuation report will also be required to be included in the listing document.
15. We also propose that where the prospectus includes a valuation report by an independent professionally qualified valuer of the associated mineral or petroleum assets or resources, valuation of property interests ancillary to the exploration for and/or extraction of mineral or petroleum assets or resources (“mining activities”) will not be required.
16. Details of the proposals are in Chapters 4 and 5. The draft class exemption notice is in Appendix III and the proposed Main Board and GEM Listing Rules amendments are in Appendices IV.A and IV.B respectively.

## **Proposals relating to property valuation requirements for issuers**

17. We propose to remove the property valuation requirement if a company being acquired or disposed of is listed on the Exchange, except where it is a connected transaction. Similarly, we propose to remove the valuation requirement for the issuer group's existing property interests for a very substantial acquisition.
18. We propose to maintain the Listing Rule property valuation requirements for a transaction that is classified as a major transaction or above, and which involves the acquisition or disposal of a property or an unlisted company whose assets consist solely or mainly of property, except where the exemption in paragraph 19 applies.
19. We propose not to require an issuer to conduct a valuation and disclose valuation information if the carrying amount of a property interest is below 1% of its total assets. The total carrying amount of the property interests not requiring valuation must not exceed 10% of the issuer's total assets. We propose to allow summary disclosure of valuation reports if the market value of a property interest is below 5% of the issuer's total property interests that are required to be valued. The detailed valuation reports will be available for public inspection. An overview of property interests not covered by a valuation report will be required to be included in the circular.
20. We also propose that for an acquisition or disposal of an unlisted company, valuation of property interests ancillary to mining activities will not be required where the circular includes a valuation report by an independent professionally qualified valuer of the associated mineral or petroleum assets or resources.
21. For connected transactions, we propose that the existing valuation requirements will remain the same. Valuations for an acquisition or disposal of a company listed on the Exchange will continue to apply for connected transactions.
22. Details of the proposals are in Chapter 6. The proposed Main Board and GEM Listing Rules amendments are in Appendices IV.A and IV.B respectively.

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## CHAPTER 1: INTRODUCTION AND NEXT STEPS

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### History

23. The Listing Rule<sup>3</sup> requirements on property valuations for applicants have been in place since the unification of the Hong Kong exchanges in 1986. They have not changed much since then. An applicant is required to include property valuation reports and information relating to all its properties in its listing document.
24. The Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (“CO”) requires a property valuation report to be included in a prospectus if the interests in land or buildings shown in the company’s last accounts exceed 10% of its assets or have a value of not less than HK\$3,000,000.
25. In 1997, the Exchange introduced an exemption from detailed disclosure in listing documents and circulars for operating leases that have zero value. To mirror this exemption in the Listing Rules, the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) was introduced in 2001. The purpose of the exemption is to reduce the bulk of a prospectus. An applicant is still required to obtain property valuations for all operating leases and full valuation reports must be available for public inspection.
26. For issuers, property valuations were not required when the Listing Rules were first adopted. Property valuations are now required in specific circumstances, for example, where any of the percentage ratios used to classify a property acquisition or disposal is or is above 25%.

### Reasons for review

27. When the property valuation rules were designed for applicants, the profile of issuers listed on the Exchange was very different from now. In the 1980s, the market was dominated by property companies with most of their properties located in Hong Kong.
28. Hong Kong is now an international finance centre and has attracted issuers from diverse industries and sectors. This also means that more issuers have property interests outside Hong Kong.
29. In 2008, the HKEx Board engaged a consultant to conduct a strategic review of the Listing Rules and their application. The objective was to review the existing listing regime to identify possible means of enhancing the competitiveness of the Exchange as an international listing venue, while maintaining the quality of the Hong Kong securities market.
30. The consultant commented that the current property valuation requirements could be unnecessarily costly and unduly burdensome for applicants. It recommended that they be removed for non-property company applicants. Market practitioners share the view that it may be overly burdensome and often irrelevant to value every property interest and to disclose the valuation reports in listing documents<sup>4</sup>.

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<sup>3</sup> References to Rules in this paper are to the Main Board Listing Rules. The proposals also apply to corresponding GEM Listing Rules.

<sup>4</sup> The term “listing document” used in this paper means “prospectus” in the context of the Companies Ordinance.



31. For issuers, we consider there is room to streamline the Listing Rule requirements.
32. The proposals aim to remove unnecessary burden. They also enhance the quality of information provided to investors by requiring meaningful information to be disclosed.
33. In formulating these proposals and preparing this paper, we have solicited views from interested market practitioners. We thank them for sharing their views with us and for their suggestions.

### **Next steps**

34. Removing property valuation requirements from the Listing Rules for non-property applicants is our long term goal. However, this goal cannot be achieved until the CO is amended. The SFC considers that prescriptive property valuation requirements may prove unnecessary under the prospectus law in the long term.

### **The Class Exemption**

35. Subject to the results of this market consultation, the SFC proposes to issue a class exemption notice pursuant to sections 38A(2) and 342A(2) of the CO to give effect to the proposals relating to property valuation requirements for prospectus. The class exemption notice is subject to negative vetting by the Legislative Council.

### **Listing Rule amendments**

36. The Exchange intends to amend the Listing Rules in conjunction with the class exemption notice. As usual, the Exchange and the SFC will work together to develop the consultation conclusions and any relevant Listing Rule amendments.

# **Part I**

## **PROPOSALS TO AMEND PROPERTY VALUATION REQUIREMENTS FOR APPLICANTS**

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## **CHAPTER 2: CURRENT REQUIREMENTS AND ISSUES**

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37. This chapter sets out the current property valuation requirements for applicants and issues identified.

### **Existing property valuation requirements for applicants**

#### **Companies Ordinance**

38. Paragraph 34 of the Third Schedule to the CO requires a company to include in its prospectus a valuation report for all its interests in land or buildings (including interests held as a lessee under an operating lease) if the interests shown in the company's last accounts exceed 10% of its asset or have a value of not less than HK\$3,000,000.
39. Section 6 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice ("Operating Leases Exemption Notice"), which applies to prospectuses only, exempts disclosure in the prospectus of detailed valuation reports on operating leases if:
- (a) the value of the interest of the company, or any of its subsidiaries, in the land or buildings has been determined by an independent qualified valuer;
  - (b) the value of the interest determined is zero;
  - (c) the valuation report has been given to the Exchange and is available for public inspection; and
  - (d) a summary of all interests in land or buildings covered by the exemption is included in the prospectus.

#### **Listing Rules**

40. Rule 5.01 states that valuations of and information on all the issuer's interests in land and buildings must be included in a listing document issued by an applicant.
41. Practice Note 16 ("PN 16") to the Listing Rules is similar to the Operating Leases Exemption Notice but applies to both listing documents and circulars.
42. Rule 5.07 provides that the effective date at which the property was valued must not be more than three months before the issue date of the listing document.
43. The Listing Rules also set out the content requirements for valuations reports and an independence requirement for the valuer.

#### **Issues under the existing requirements**

44. An applicant seeking a listing in Hong Kong must obtain independent valuations for all its property interests and include the valuation reports in its listing document.
45. These requirements may be unnecessarily costly and unduly burdensome and the information provided may not benefit investors. We discuss below three areas where this may be an issue.

### **Valuations of immaterial property interest**

46. An applicant may have numerous property interests. However, not all of them may be material to its business. Disclosing valuation reports for all property interests may result in pertinent information on material property interests being buried and not being readily apparent to investors reading the listing document. Also, valuation reports on property interests in remote areas and which are unimportant to the applicant's operations may be unnecessary.

### **Valuations if property development and investment is not the core business**

47. Property valuation reports may not be relevant or necessary for investors if property development and investment is not the applicant's core business. For example, the property interests of an applicant engaging in manufacturing may comprise its factories. Valuation information may not be meaningful to investors as the property interests are not intended for sale or development.

### **Valuations of properties held under operating leases**

48. PN 16 and the Operating Leases Exemption Notice exempt disclosure of detailed valuation reports on operating leases in listing documents. However, one of the conditions for exemption is that they have to be valued by an independent valuer. Therefore, an applicant must still conduct valuations for all its operating leases.
49. The prospectuses of the 64<sup>5</sup> companies listed on the Main Board in 2009 show that all leased properties were valued at zero. This raises the question of whether the cost incurred in valuing them is justified, particularly where an applicant has numerous property interests globally which are mostly operating leases.

### **Comparison of property valuation requirements in overseas jurisdictions**

50. We have reviewed the property valuation requirements for listing equity securities in the US, PRC, Australia, UK and Singapore. A detailed comparison forms Appendix I.A.
51. In summary, the US, PRC and Australia do not require property valuations for listing equity securities<sup>6</sup>. However, the US and PRC require descriptive information on properties in the listing document. In the UK and Singapore, property valuations are only required for applicants engaged in property investment or development.

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<sup>5</sup> Companies listed under Chapter 8 of the Listing Rules.

<sup>6</sup> In the PRC, where funds raised are proposed to acquire assets, the prospectus must disclose the valuation of the assets and the valuation reports must be made available for public inspection.

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## CHAPTER 3: GENERAL DISCLOSURE OBLIGATION AND PROPOSALS FOR ALL APPLICANTS

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### General disclosure obligation

52. In considering whether specific requirements on property valuation are necessary, we are mindful of the general disclosure obligation in the Companies Ordinance that a prospectus must contain “*sufficient particulars and information to enable a reasonable person to form...a valid and justifiable opinion of the shares or debentures and the financial condition and profitability of the company at the time of the issue of the prospectus...*”.<sup>7</sup>
53. Similarly, the Listing Rules provide that a listing document must “*contain such particulars and information which...is necessary to enable an investor to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of the issuer and of its profits and losses and of the rights attaching to such securities.*”<sup>8</sup>
54. In view of the general disclosure obligation, prescriptive property valuation requirements under the prospectus law may be unnecessary in the long term. However, we cannot achieve this goal until the Companies Ordinance is amended. Until then, subject to the results of this market consultation, the SFC proposes to issue a class exemption notice under sections 38A(2) and 342A(2) of the CO to give effect to the proposals relating to the property valuation requirements for applicants.
55. We discuss in Chapters 4 and 5 our proposed specific requirements. However, the general disclosure obligation may require greater disclosure than the minimum proposed. We set out below guidance on the factors to be considered in deciding whether disclosure beyond the minimum specified is necessary.

### Disclosure of material property interests

56. An applicant must disclose information on its material property interests. The information must be meaningful for investors to assess the company. We expect applicants and sponsors to consider materiality in light of all the relevant circumstances and disclose property valuations and/or relevant information for material property interests.
57. It is important that sponsors and advisers conduct appropriate and adequate due diligence on the properties despite there not being a requirement for an independent valuation. During meetings with market practitioners, we were advised that a significant amount of the work associated with property valuations is connected with due diligence, especially as to the legal title of properties. We expect that sponsors will ensure that appropriate and adequate due diligence is performed on properties, whether or not there is a requirement to include a property valuation report in a prospectus or circular, with particular attention as to the legal title.

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<sup>7</sup> See footnote 1.

<sup>8</sup> See footnote 2.

### *Materiality guidance*

58. There is no definition of materiality in the Listing Rules. Materiality judgement must be made considering all relevant circumstances. In considering whether a property interest is material or not, applicants and sponsors may consider:
- (a) whether the property interest (individually or in aggregate) is used for a reportable segment of the applicant. If so, whether it contributes a significant portion of revenue to the applicant;
  - (b) 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;
  - (c) 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 of environmental regulations or title defects; and
  - (d) whether there is re-development potential for the property that may impact the applicant's financial position.
59. These factors are only for guidance and are not an exhaustive list. Applicants and sponsors should carefully consider how the information could influence investors' decision. Materiality judgement can only be properly made taking in account all the facts and circumstances of the applicant.

### *Disclosure guidance*

60. We expect listing documents to disclose descriptive information on material properties, even where valuation reports may already be required to be disclosed (see proposals in Chapters 4, 5 and 6). An applicant and an issuer may include valuation reports voluntarily.
61. Appropriate information concerning material property interests (including leased properties) may include:
- (a) a general description of where the property is located (rather than only its address) and some market analysis. 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 assets are held. For example, owned or leased. If leased, the remaining term;
  - (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) future plans for construction, renovation, improvement or development of the property and estimated associated costs; and
  - (i) any other information considered important for investors.
62. These are only for guidance and are not exhaustive. Different types of property interests may require specific disclosure.

**Consultation question**

Q1: Do you agree with the proposed disclosure guidance for material property interests in paragraph 61? If your answer is “No”, please give reasons and alternative views.

**Proposals**

**Different requirements for property activities and non-property activities**

- 63. We consider that different property valuation requirements should apply to property activities and non-property activities to reflect their different nature.
- 64. Before we discuss the proposals in detail, we set out below the proposed definition of property activities.

**Proposed definition of property activities**

- 65. For valuation requirements, we propose to define “property activities” as:

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

**Consultation questions**

Q2: Do you agree that the proposed definition of property activities is appropriate? If your answer is “No”, please give reasons and alternative views.

**Proposed definition of property interest**

- 66. The HKIS Valuation Standards on Property published by the Hong Kong Institute of Surveyors define property as *“land or buildings, whether the interest is a freehold or leasehold interest, and include carparks, and assets incidental to the ownership or real estate (e.g. fitting, fixture, etc.)”*.
- 67. We propose a property to mean land or buildings (completed or constructions in progress). For buildings, we propose to include fittings and fixtures, which should include building services installation such as plumbing and pipes, electrical instalments, ventilation systems, escalators and improvements generally. We do not intend to include equipment and machinery used for production.

**Consultation question**

Q3: Do you agree with the proposed definition of a property interest in paragraph 67? If your answer is “No”, please give reasons and alternative views.

### *Guidance on what constitutes a property interest*

68. The carrying amount<sup>9</sup> of a single property interest is used to calculate: (a) the percentage below which valuation is exempted for property interests of an applicant's property activities in Chapter 4; and (b) the threshold above which valuation is required for property interests of an applicant's non-property activities in Chapter 5. We recognise that there may be circumstances where parcels of land, buildings or units are acquired or constructed in different phases and it may not be clear whether they should be treated as a property interest.
69. For guidance, the following are examples of what we would consider a property interest to be:
- (a) one or more units in the same building;
  - (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 buildings, structures or facilities comprising a property development project (even if there are different phases);
  - (e) one or more properties held for investment in one complex;
  - (f) 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; or
  - (g) project presented as a whole to the public as one project or forming a single operating entity.

#### ***Consultation question***

Q4: Do you agree with the proposed guidance on what should be treated as a single property interest in paragraph 69? If your answer is "No", please give reasons and alternative views.

### *Operating leases*

70. As mentioned in paragraphs 48 and 49, valuations of operating leases have been criticised as unnecessary and irrelevant for investors.
71. An operating lease is treated as a property interest. 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, under the proposals in Chapters 4 and 5, valuations will not be required for operating leases.
72. The SFC intends to repeal the Operating Leases Exemption Notice as operating leases will be covered under the proposed definition of "property interest" in paragraphs 67 to 69. Similarly, the Exchange also intends to repeal PN 16.

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<sup>9</sup> "Carrying amount" means the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.



73. However, in August 2010 the International Accounting Standards Board (“IASB”) jointly with US Financial Accounting Standards, published an exposure draft: *Leases*, which proposes to recognise the right to use leased item under operating leases as an asset and the related obligation to pay rentals as a liability. The conclusion of this discussion paper is expected to be published in the second quarter of 2011. If IASB’s proposals on lease accounting are adopted, and at that time the Operating Lease Exemption Notice and PN 16 have already been repealed and the proposals in the paper have been adopted and become effective, we will consider consequential amendments to the new class exemption notice and Listing Rules.

### **Contents of valuation reports**

74. In addition to the Listing Rule requirements, we expect that the valuation reports should include relevant information. This information, which may not currently be disclosed in valuation reports, is required under the applicable valuation standards mentioned under Rule 5.05. They include:
- (a) the basis of and approach to valuation for the property interest;
  - (b) when the site was last inspected;
  - (c) extent of investigation, including details of inspection, such as building conditions, availability of building services, etc.;
  - (d) nature and source of information relied on;
  - (e) details of title and ownership;
  - (f) details of encumbrances; and
  - (g) how the properties are grouped together for each valuation certificate.

The SFC proposes that the disclosure requirement in the class exemption notice should, to the extent necessary, reflect the Listing Rules requirements.

75. As the above disclosure is currently required or proposed to be required under the Hong Kong Institute of Surveyors Valuation Standards on Properties or the International Valuation Standards, we understand that it should not add significant costs to applicants.

### ***Consultation question***

- Q5: In addition to the information mentioned in paragraph 74, 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? If you answer is “Yes”, please state.

### **Proposal for the effective date for valuation**

76. Rule 5.07 states that the effective date at which the property was valued must not be more than 3 months before the date on which the relative listing document is issued. Rule 8.06 states that the latest period reported on by the reporting accountants must not have ended more than 6 months before the date of the listing document.
77. Some practitioners commented that the effective date at which the property was valued should be aligned with the latest period reported on by the reporting accountants. However, there are also views that the property market is volatile and the period of 3 months should not be extended. Also, it appears that the valuation date of 3 months is not overly burdensome on valuers to carry out the work.

78. We propose to maintain the current effective date at which the property was valued under Rule 5.07.

***Consultation question***

- Q6: 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? If your answer is “No”, please give reasons and alternative views.

**Minor rule amendments**

79. There are references in the Listing Rules that “... Any valuation of assets (other than land and buildings) or businesses acquired by an issuer on discounted cash flows or projections of profits, earnings or cash flows will also be regarded as a profit forecasts.” For consistency, we propose to amend “other than land and buildings” to “other than property interests (as defined in rule 5.01(3))”.
80. Under GEM Rules 11.16 and 11.18, an applicant that is a property company or infrastructure company must have long-term title certificates for a substantial portion of its PRC properties. These rules were based on the Main Board announcement in 1998. We clarified in 2010 that these requirements are not applicable to other applicants. However, they still remain effective for GEM applicants (see the Guidance Letter, GL19-10, issued in July 2010). We propose to amend GEM Rule 11.16 to replace “property company” with “property activity”. We consider this a minor rule amendment.

**The prospectus law**

81. As discussed in paragraphs 50 to 51, even though there are some overseas jurisdictions that require property valuations in listing documents, the requirement is not prescribed in their prospectus laws. The SFC would like to seek your view on whether there is a need to keep the existing valuation requirement under the prospectus law or whether it is more appropriate to rely on the general disclosure obligation under the Companies Ordinance.

***Consultation question***

- Q7: 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? Please give reasons.

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## CHAPTER 4: PROPOSALS FOR PROPERTY ACTIVITIES

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82. Property activities include holding property interests for development, sale and/or rental income. Valuation information is therefore important for investors. In summary, we propose:
- (a) **Valuation reports for all property interests except for those with carrying amount<sup>10</sup> below 1% of the applicant's total assets<sup>11</sup>.** We propose that an applicant will be required to obtain property valuation reports and disclose valuation information for all property interests of its property activities. However, the property interests with a carrying amount below 1% of the applicant's total assets will not need to be valued. The total carrying amount of property interests not valued must not exceed 10% of the applicant's total assets. Full text valuation reports for valued property interests will be required to be disclosed in the listing document except where summary disclosure is allowed. For details, please refer to paragraphs 83 to 85.
  - (b) **Summary disclosure of valuation reports for property interests valued at below 5% of the applicant's total valued property interests.** To reduce the bulk of listing documents, we propose to allow summary disclosure of valuation reports if the market value of a property interest is below 5% of the applicant's total property interests that are required to be valued under property activities. The detailed valuation reports will be required to be available for public inspection. For details, please refer to paragraphs 86 and 87.
  - (c) **Overview of property interests not valued.** An overview of all property interests not covered by a valuation report will be required to be disclosed.

### **Valuation reports for all property interests except for those with carrying amount below 1% of the applicant's total assets**

83. An applicant may have a large number of properties and some may constitute only an insignificant portion of its assets. We propose that an applicant will not be required to obtain property valuation reports and disclose valuation information for property interests of its property activities with a carrying amount below 1% of its total assets.
84. An applicant may have numerous properties, each with a carrying amount below 1% of its total assets. We consider this exemption should be subject to a cap. We propose that the total carrying amount of the exempted property interests must not exceed 10% of the applicant's total assets.
85. 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 interests comprising the lowest 10% will be exempted from valuation. Property valuations will be required for the remaining property interests. Full text of valuation reports will be required to be disclosed in the listing document except where summary disclosure is allowed. The SFC considers it unnecessary to include prescriptive requirement on how to identify the 10% limit under the proposed class exemption notice.

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<sup>10</sup> See footnote 9 for definition.

<sup>11</sup> "Total assets" means 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.

***Consultation questions***

- Q8: 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? If your answer is "No", please give reasons and alternative views.
- Q9: Do you agree not to require valuation of a property interest with carrying amount below 1% of total assets? If your answer is "No", please give reasons and alternative views.
- Q10: 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? If your answer is "No", please give reasons and alternative views.

**Summary disclosure of valuation reports for property interests valued at below 5% of the applicant's total valued property interests**

86. To reduce the bulk of listing documents, we propose to allow summary disclosure of valuation reports if the market value of a property interest is below 5% of the applicant's total property interests that are required to be valued under the property activities. The detailed valuation reports will be required to be available for public inspection.
87. The Exchange proposes the summary of property interests be in the form in Appendix II, which will be part of the Listing Rules. The Exchange may accept variation of this summary form of disclosure according to the applicant's circumstances.

***Consultation questions***

- Q11: 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? If your answer is "No", please give reasons and alternate views.
- Q12: 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? If your answer is "No", please give reasons and alternative views.
- Q13: Do you agree with the form for summary disclosure of property interests in Appendix II? If your answer is "No", please give reasons and alternative views.

**Overview of property interests not valued**

88. For all property interests that would be exempted from valuation requirements, we propose that an overview be included in the listing document describing these exempted property interests. The overview should provide relevant information such as geographical location, number, approximate size range, intention of use and how the property interests are held (owned or leased). If an applicant voluntarily values and discloses valuation information on a property interest not required to be valued under the Listing Rules, it should be excluded from the overview.

***Consultation question***

Q14: 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? If your answer is “No”, please give reasons and alternative views.

**Listing Rule amendments and class exemption notice**

89. The SFC considers that the proposed class exemption notice should apply to prospectus for unlisted companies as well as applicants.
90. The proposed class exemption notice forms Appendix III. The proposed class exemption notice is an indicative draft which is still subject to comments of the Department of Justice. The proposed rule amendments to implement the proposals for property activities are in Appendices IV.A and IV.B.
91. The Exchange has also taken this opportunity to modify the relevant Listing Rules into plainer writing to make them more user friendly.

***Consultation questions***

- Q15: Do you agree that the proposed class exemption notice should apply to prospectus for unlisted companies as well as applicants? If you answer is “No”, please give reasons and alternate views.
- Q16: Do you agree that the proposed class exemption notice in Appendix III will implement the proposals for property activities? If you answer is “No”, please give reasons and alternate views.
- Q17: Do you agree that the proposed Listing Rule amendments in Appendices IV.A and IV.B will implement the proposals for property activities? If your answer is “No”, please give reasons and alternative views.

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## CHAPTER 5: PROPOSALS FOR NON-PROPERTY ACTIVITIES

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92. Property interests of an applicant's non-property activities would normally be owned and occupied for own use. In summary, we propose disclosure as follows:

(a) **Valuation report for each property interest with a carrying amount of 15% or above of total assets.** We propose that a full text of valuation report will be required if the carrying amount of a property interest is or is above 15% of an applicant's total assets. The applicant will also be required to include a statement that no other single property interest of its non-property activities has a carrying amount of 15% or above of its total assets. For details, please refer to paragraphs 94 to 98.

(b) **Overview of property interest not valued.** We propose that the listing document includes an overview of properties not covered by a valuation report.

93. We also propose that valuation of property interests ancillary to mining activities will not be required.

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

94. We propose that a full text of valuation report will be required if the carrying amount<sup>12</sup> of a property interest is or is above 15% of an applicant's total assets. The applicant may include a property valuation report in the listing document voluntarily. However, an applicant will be required to include a valuation report if necessary to meet the general obligation requirements.

95. A property interest may be recorded in the accounts at historical value and so may not reflect current market value. Some practitioners suggest that the market value be used to calculate the threshold instead. However, if market value is used, applicants will need to value every property interest. This would defeat the purpose of removing unnecessary burden.

### ***Consultation question***

Q18: 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? If your answer is "No", please give reasons and alternative views.

### ***Figures for calculating the 15% threshold must be reflected in the accountants' report***

96. The relevant carrying amount must be reflected in the accountants' report. We understand that the relevant figures can be obtained from the books and records of the applicant or its subsidiaries.

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<sup>12</sup> See footnote 9 for definition.

97. The proposal is to use total assets as shown in the accountants' report to calculate the 15% threshold so that a direct comparison can be made with the carrying amount of property interests (which is stated before liabilities and mortgages). This also aligns with the notifiable transactions requirements in the Listing Rules where total assets are used in one of the tests to classify transactions.

***Consultation question***

Q19: 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? If your answer is "No", please give reasons and alternative views.

***Other disclosure requirements***

98. To ensure investors' interests are not prejudiced, we propose to require a statement that, other than the property interests in valuation reports, there is no single property interest in the group which has carrying amount of 15% or more of total assets.

***Consultation question***

Q20: Do you agree with the proposed disclosure requirement for property interests in paragraph 98? If your answer is "No", please give reasons and alternative views.

**Overview of property interests not valued**

99. For all property interests that have been exempted from valuation requirements, we propose that the applicant includes an overview describing them in its listing document. The overview must provide information such as geographical location, number, approximate size range, use and how the properties are held (owned or leased). If an applicant voluntarily values and discloses valuation information on a property interest not required to be valued under the Listing Rules, it should be excluded from the overview.

***Consultation question***

Q21: 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? If your answer is "No", please give reasons and alternative views.

## **Property interests ancillary to mining activities**

100. We consider that the true value of mining activities lies in the control of exploration and extraction rights of natural resources. Relevant valuation on mineral or petroleum assets or resources prepared by an independent professionally qualified valuer is already required to be disclosed under Chapter 18 of the Listing Rules. Valuation of property interests ancillary to mining activities, such as buildings and other properties around the mining site, may be meaningless and unduly burdensome. So we propose that property valuations will not be required.

### ***Consultation question***

- Q22: 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? If your answer is "No", please give reasons and alternative views.

## **Listing Rule amendments and class exemption notice**

101. The SFC considers that the proposed class exemption notice should apply to prospectus for unlisted companies as well as applicants.
102. The proposed class exemption notice forms Appendix III. The proposed class exemption notice is an indicative draft which is still subject to comments of the Department of Justice. The proposed rule amendments to implement the proposals for non-property activities form Appendices IV.A and IV.B.
103. The Exchange has also taken this opportunity to modify the relevant Listing Rules into plainer writing make them more user friendly.

### ***Consultation questions***

- Q23: Do you agree that the proposed class exemption notice should apply to prospectus for unlisted companies as well as applicants? If your answer is "No", please give reasons and alternate views.
- Q24: Do you agree that that proposed class exemption notice in Appendix III will implement the proposals for non-property activities? If your answer is "No", please give reasons and alternate views.
- Q25: Do you agree that the proposed Listing Rule amendments in Appendices IV.A and IV.B will implement the proposals for non-property activities? If your answer is "No", please give reasons and alternative views.



## **Part II**

### **PROPOSALS TO AMEND PROPERTY VALUATION REQUIREMENTS FOR ISSUERS**

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## CHAPTER 6: PROPOSALS FOR ISSUERS

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104. This chapter reviews the current property valuation requirements in circulars for issuers and sets out our proposals to revise the Listing Rules.

### **Existing property valuation requirements for issuers**

105. Rule 5.02 requires a valuation of and information on property for an acquisition or realisation of a property, or a company whose assets consist solely or mainly of property, where any of the percentage ratios (as defined in Rule 14.04(9)) to classify the transaction is or is above 25%. A valuation report is not required if the property is acquired from the Hong Kong Government at a public auction or by sealed tender. In the circular for a major transaction or very substantial disposal, an issuer needs to include a valuation report on the property interest being acquired or disposed of (Rule 14.66(11)).
106. For a very substantial acquisition (i.e. where any of the percentage ratios to classify the transaction is 100% or more), the issuer also needs to include a valuation report on the enlarged group's property interests. This includes assets being acquired and existing properties (Rule 14.69(3)).
107. Rule 5.03 requires that, for an acquisition or realisation of any property from or to a connected person, a valuation of and information on the property must be included in any circular issued to shareholders for the transaction. A circular is required where any of the percentage ratios (as defined in Rule 14.04(9)) is or is above 5%. Rule 14A.59(6) requires the circular to include "*an independent valuation if the primary significance of the asset being acquired or disposed of is its capital value (for example, real property)*".
108. PN 16 exempts disclosure of detailed valuation reports on properties held under operating leases in circulars if certain conditions are met. Details of PN 16 are set out in paragraphs 39 and 41.
109. Rule 5.07 states that the effective date at which the property was valued must not be more than three months before the issue date of the circular.

### **Comparison of property valuations requirements in overseas jurisdictions**

110. In the US and Australia, there is no specific rule or regulation requiring property valuations for significant transactions. In the PRC, asset valuations are required for significant transactions. In the UK, property valuation reports are required for acquisitions and disposals of property or acquisitions of a property company that is unlisted. For a very substantial acquisition (where the size of relative figure is 100% or more), Singapore requires a property investment/development company to conduct valuations for the enlarged group. No valuations are required if the assets (including securities and business undertakings) being acquired are listed on the Singapore Exchange. A detailed comparison of the property valuation requirements in these jurisdictions forms Appendix I.B.

## Proposals and reasons for the proposals

111. The proposals aim to remove unnecessary burden for issuers and enhance quality of information provided to investors. We are minded that under the Listing Rules, issuers are under the general disclosure obligation to disclose all information necessary for shareholders to make an informed decision (Rule 14.63(2)(a)). This is further elaborated in paragraphs 52 to 62.

### ***Consultation question***

- Q26: Do you agree with the proposed disclosure guidance for material property interests in paragraph 61? If your answer is “No”, please give reasons and alternative views.

112. Currently, the Listing Rules require a valuation of and information on property to be included in a circular for a transaction that is classified as a major transaction or above, and which involves the acquisition or disposal of a company whose assets consist solely or mainly of property. Unlike an applicant, the Exchange does not consider it necessary to introduce different valuation requirements for an acquisition or disposal of non-property activities and property activities.

### ***Consultation question***

- Q27: 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? If your answer is “No”, please give reasons and alternative views.

## **Acquisition or disposal of a property**

113. We consider that the disclosure of valuation reports in a circular for an acquisition or disposal of a property provides important information to shareholders and the market. So we propose to retain the property valuation requirements for an acquisition or disposal of a property where any of the percentage ratios to classify the transaction is or is above 25% (i.e. a major transaction).

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

114. We propose that the disclosure of valuation reports in a circular will not be required if the issuer is acquiring or disposing an interest in a company listed on the Exchange as investors already deal with the shares of the company based on information in the market. Instead, an overview of property interests not covered by a valuation report will be required to be disclosed in the circular. However, property valuations will be required if it is a connected transaction. Please see paragraph 123.
115. 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 Codes on Takeovers and Mergers and Share Repurchases (“Takeovers Code”). The Takeovers Code prescribes information that is required to be contained in an offer document, offeree board circular or other documents (as the case may be), which includes reports on valuation of companies with significant property interest to enable shareholders to have sufficient information to reach an informed decision as to the merits of an offer.

***Consultation questions***

- Q28: 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)? If your answer is “No”, please give reasons and alternative views.
- Q29: Do you agree that an overview of property interests not covered by a valuation report be disclosed in the circular? If your answer is “No”, please give reasons and alternative views.

**Acquisition or disposal of an unlisted company**

116. We consider that the Listing Rule valuation requirements for a transaction of an unlisted company whose assets consist solely or mainly of property where any percentage ratios of the transaction is or is above 25% would not over burden issuers.
117. We propose to require valuations for all property interests except those with a carrying amount below 1% of the issuer’s total assets. However, the total carrying amount of property interests not valued must not exceed 10% of the issuer’s total assets. An overview of property interests not covered by a valuation report will be required to be disclosed in the circular. The proposed definition of property interest and guidance on what should be treated as a property interest discussed in paragraphs 67 and 69 also apply to issuers.
118. To reduce the bulk of circulars, we propose to allow summary disclosure of valuation reports in the form of Appendix II if the market value of a property interest is below 5% of the total property interests that are required to be valued. The Exchange may accept variation of this summary form of disclosure according to the issuer’s circumstances. The detailed valuation reports will be required to be available for public inspection.

***Operating leases***

119. As mentioned in paragraphs 48 and 49, valuations of operating leases have been criticised as unnecessary and irrelevant for investors. The discussions in paragraphs 70 to 73 also apply to issuers.

***Consultation questions***

- Q30: 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? If your answer is “No”, please give reasons and alternative views.
- Q31: Do you agree not to require valuation of property interest with carrying amount below 1% of the issuer’s total assets? If your answer is “No”, please give reasons and alternative views.
- Q32: 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? If your answer is “No”, please give reasons and alternative views.

- Q33: Do you agree with the proposed definition of property interest in paragraph 67? If your answer is “No”, please give reasons and alternate views.
- Q34: Do you agree with the proposed guidance on what should be treated as a single property interest in paragraph 69? If your answer is “No”, please give reasons and alternate views.
- Q35: 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? If your answer is “No”, please give reasons and alternate views.
- Q36: 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? If your answer is “No”, please give reasons and alternative views.
- Q37: Do you agree with the form for summary disclosure of property interests in Appendix II? If your answer is “No”, please give reasons and alternative views.
- Q38: Do you agree that an overview of property interests not covered by a valuation report be disclosed in the circular? If your answer is “No”, please give reasons and alternative views.

#### *Property interests ancillary to mining activities*

120. We consider that the true value of mining activities lies in the control of exploration and extraction rights of natural resources. Valuation of property interests ancillary to mining activities, such as buildings and other properties around the mining site, may be meaningless and unduly burdensome. We propose that for an acquisition or disposal of an unlisted company, valuations of property interests ancillary to mining activities will not be required where the circular includes a valuation report by an independent professionally qualified valuer of the associated mineral or petroleum assets or resources,.

#### **Consultation question**

- Q39: 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? If your answer is “No”, please give reasons and alternative views.

#### **Very substantial acquisition**

121. Investors already deal with the issuer’s shares based on information available in the market. A valuation of its existing properties may be unnecessary for investors to make an informed decision. So, for a very substantial acquisition, we propose that the existing properties of the issuer making the acquisition do not need to be valued.

### ***Consultation question***

Q40: Do you agree with the proposal relating to a very substantial acquisition in paragraph 121? If your answer is “No”, please give reasons and alternative views.

### **Connected transaction**

122. We propose that the existing valuation requirements will remain the same.
123. We propose that we will continue to require the disclosure of valuation reports in a circular where the connected transaction involves an acquisition or disposal of a company listed on the Exchange. We consider greater safeguard is needed for connected transactions due to the participation or influence of a connected person in the decision making process.
124. The current Rule 5.03 states that “In the case of an acquisition or a realisation of any property from or to a connected person,...”. We will make minor rule amendment to clarify the existing requirement that a valuation of and information on property interests must be included in the circular to shareholders in an acquisition or realisation of any property interest or of a company whose assets consist solely or mainly of property.
125. Also, we will make minor rule amendment to Rule 14A.59 to refer property valuation requirements to Chapter 5 of the Listing Rules. Assets valuation requirements will remain the same.

### ***Consultation questions***

- Q41: Do you agree with the proposal to retain the existing valuation requirements for connected transactions? If your answer is “No”, please give reasons and alternative views.
- Q42: 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? If your answer is “No”, please give reasons and alternative views.
- Q43: Do you agree with the proposals relating to connected transactions in paragraph 125? If your answer is “No”, please give reasons and alternative views.

### **Reverse takeovers**

126. For reverse takeovers, the issuer will be treated as an applicant. The proposed amendments clarify that the rules applicable to applicants will apply.

### **Contents of valuation reports**

127. In addition to the Listing Rule requirements, we expect that the valuation reports should include relevant information. The discussions in paragraphs 74 and 75 also apply to issuers.

***Consultation question***

Q44: In addition to the information mentioned in paragraph 74, 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? If your answer is “Yes”, please state.

**Effective date for valuation**

128. We propose to maintain the effective date at which the property was valued for circulars for the reasons in paragraphs 76 and 77.

***Consultation question***

Q45: Do you agree with the proposal to maintain the effective date at which the property was valued under Rule 5.07? If your answer is “No”, please give reasons and alternative views. (Please note that the same question has been raised for applicants in Q6)

**Minor rule amendments**

129. We will amend Rule 5.02 to state “...transaction is or is above 25%...” (currently stated as “...transaction exceeds 25%...”) to align with the major transaction percentage threshold in Chapter 14 of the Listing Rules.

130. Rule 14.61 states that “... Any valuation of assets (other than land and buildings) or businesses acquired by an issuer on discounted cash flows or projections of profits, earnings or cash flows will also be regarded as a profit forecasts.” For consistency, we propose to amend “other than land and buildings” to “other than property interests (as defined in rule 5.01(3))”.

***Consultation question***

Q46: Do you agree that the proposed Listing Rule amendments in Appendices IV.A and IV.B will implement the proposals for issuers? If your answer is “No”, please give reasons and alternative views.

## APPENDIX I.A: COMPARISON OF THE PROPERTY VALUATION REQUIREMENTS IN THE US, PRC, AUSTRALIA, UK AND SINGAPORE FOR LISTING OF EQUITY SECURITIES

United States	PRC	Australia	UK	Singapore
<p><b>Securities Act of 1933</b></p> <p>Sec 7 (a) The registration statement, when relating to a security other than a security issued by a foreign government, or political subdivision thereof, shall contain the information, and be accompanied by the documents, specified in Schedule A...</p> <p><u>Schedule A</u> (21) the names and addresses of the vendors and the purchase price of any property, or good will, acquired or to be acquired, not in the ordinary course of business, which is to be defrayed in whole or in part from the proceeds of the security to be offered, the amount of any commission payable to any person in connection with such acquisition, and the name or names of such person or persons, together with any expense incurred or to be incurred in connection with such acquisition, including the cost of borrowing money to finance such</p>	<p><b>Notice on the disclosure and format relating to publication of prospectuses</b> 关于发布《公开发行证券的公司信息披露内容与格式准则第11号—上市公司发行证券募集说明书》的通知 (证监发行字[2006]2号)</p> <p>Article 23 provides that an issuer must disclose information of its material fixed assets relating to its operations. Paragraph 1 of Article 23 provides that information on fixed assets include how the properties for manufacturing were obtained, their use, remaining years of use and residual ratio (成新率) etc. If the issuer is licensed to use an asset, or license another to use its asset, it must disclose a summary of the license contract, including the</p>	<p>There is no specific rule or regulation requiring property valuation reports.</p>	<p><b>Prospectus Rules</b></p> <p><u>1.1.8 CESR recommendations</u><sup>14</sup></p> <p>In determining whether Part 6 of the <i>Act</i><sup>15</sup>, these <i>rules</i> and the <i>PD (Prospectus Directives) Regulation</i> has been complied with, the <i>FSA</i> will take into account whether a person has complied with the <i>CESR recommendations</i>.</p> <p><b>CESR recommendations</b> (paragraphs 128 and 129)</p> <p><b>128.</b> Considering the specific features of property companies and Article 23 of the Regulation, CESR proposes that property companies, when preparing a prospectus for a public offer or admission to trading of shares, debt securities with a denomination of less than EUR 50.000 secured by the properties (including convertible debt securities) and depository receipts issued over shares with a denomination of less than EUR 50.000, include a valuation report. Only a condensed report needs to be</p>	<p><b>Listing Manual Rule 222 Property Investment/Development Companies</b></p> <p>In addition to the requirements for listing on the SGX Mainboard or Catalist, a property investment/development company applying for admission to the Official List must also meet the following requirements:-</p> <p>...</p> <p>2) Independence of Valuer An issuer must appoint a valuer to conduct a valuation of all its principal freehold and leasehold properties. ...</p> <p>3) Valuation Report The valuation report must state the effective date at which the properties are valued, which should not</p>

<sup>13</sup> Form S-11 is used for registration under the Securities Act of 1933 of (i) securities issued by real estate investment trust, as defined in the Internal Revenue Code, or (ii) securities issued by issuers whose business is primarily that of acquiring and holding for investment real estate or interest in real estate or interests in other issuers whose business is primarily that of acquiring and holding real estate or interest in real estate investment. The form is not for issuer that is an investment company registered or required to be registered under the Investment Company Act of 1940.

<sup>14</sup> CESR Recommendations: the recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses published by the Committee of European Securities Regulators (CESR).

<sup>15</sup> Part 6 of the *Act*: Official Listing part of the Financial Services and Markets Act 2000.



United States	PRC	Australia	UK	Singapore
<p>acquisition; ...</p> <p><b>Regulation S-K, Item 102</b> State briefly the location and general character of the principal plants, mines and other materially important physical properties of the registrant and its subsidiaries. In addition, identify the industry segment(s), as reported in the financial statements, that use the properties described. If any such property is not held in fee or is held subject to any major encumbrance, so state and describe briefly how held.</p> <p><b>Form S-11, for registration under the Securities Act of 1933 of Securities for certain real estate companies</b><sup>13</sup> <u>Description of Real Estate</u></p> <p>(a) State the location and describe the general character of all materially important real properties now held or intended to be acquired by or leased to the registrant or its subsidiaries. Include information as to the present or proposed use of such properties and their suitability and adequacy for such use. Properties not yet acquired shall be identified as such.</p> <p>(b) State the nature of the registrant's or subsidiary's title to, or other interest in, such properties and the nature and amount of all material mortgages, or other liens or encumbrances against such properties. Set forth briefly the current principal amount of each such material encumbrance, its interest and</p>	<p>name of the licensor, the name of the licensee, information relating to the assets, licensing period and fees etc.</p> <p>Article 25 provides that if an issuer has overseas assets, it must disclose the size, location, situation about management and profitability of the assets etc.</p> <p>Article 60 provides that if fund raised is proposed to be used to acquire assets, the prospectus must disclose the evaluation, pricing of the assets, among other things.</p> <p>Article 75 provides that for assets the issuer proposes to acquire, an asset valuation report is a document made available for inspection by the public.</p>		<p>included in the prospectus.</p> <p><b>129.</b> Property companies are those issuers whose principal activity is holding of properties, both directly and indirectly and development of properties for letting and retention as an investment, the purchase or development of properties for retention as investment. For the purpose of this definition, property means freehold, heritable or leasehold property or any equivalent.</p>	<p>be more than six months from the date of the application for listing.</p> <p><b>Rule 246 The application must include:</b> (1) Particulars as required in Appendix 2.1 with a checklist showing compliance with the admission requirements set out in Rules 210, 211 and 222, whichever is applicable ... (10) For an applicant which is engaged in property investment or development, the valuation report(s) of each principal asset of the group that is revalued. In the case of a secondary listing, this requirement is not applicable.</p>

United States	PRC	Australia	UK	Singapore
<p>amortization provisions, its pre-payment provisions and its maturity date and balance to be due at maturity assuming no payment has been made on principal in advance of its due date.</p> <p>(c) Outline briefly the principal terms of any lease of any of such properties or any option or contract to purchase or sell any of such properties.</p> <p>(d) Outline briefly any proposed program for the renovation, improvement or development of such properties, including the estimated cost thereof and the method of financing to be used. If there are no present plans for the improvement or development of any unimproved or undeveloped property, so state and indicate the purpose for which the property is to be held or acquired.</p> <p>(e) Describe the general competitive conditions to which the properties described above are or may be subject.</p> <p><i>Instructions</i>  ... The information shall be furnished separately as to each property the book value of which amounts to ten percent or more of the total assets of the registrant and its consolidated subsidiaries or the gross revenue from which for the last fiscal year amounted to ten percent or more of the aggregate gross revenues of the registrant and its consolidated subsidiaries for the registrant's last fiscal year. With respect to other properties the information shall be given by such</p>				

United States	PRC	Australia	UK	Singapore
<p>classes or groups and in such detail as will reasonably convey the information required. ...</p> <p><b>Registration statements Form 20-F (for foreign private issuer other than asset-backed issuer)</b></p> <p><u>Property, plants and equipment</u></p> <p>Provide information regarding material tangible fixed assets, including leased properties and any major encumbrances thereon, including a description of size and uses of the property, production capacity and extent of utilization of the company's facilities; how the assets are held; the products produced; and the location.</p> <p>Also describe any environmental issues that may affect the company's utilization of the assets.</p> <p>With regard to any material plans to construct, expand or improve facilities, describe the nature of and reason for the plan, an estimate of the amount of expenditures including the amount of expenditures already paid, a description of the method of financing the activity, the estimated dates of start and completion of the activity, and the increase of production capacity anticipated after completion.</p>				

**APPENDIX I.B: COMPARISON OF THE PROPERTY VALUATION REQUIREMENTS IN THE US, PRC, AUSTRALIA, UK AND SINGAPORE FOR SIGNIFICANT TRANSACTIONS**

United States	PRC	Australia	UK	Singapore
<p>There is no specific provision in the NYSE Listed Company Manual requiring property valuations</p>	<p><b>The Administrative Measures for Significant Asset Restructuring of Listed Companies adopted by the China Securities Regulatory Commission (CSRC) on 24 March 2008, effective on 18 May 2008 (上市公司重大资产重组管理办法(2008年4月16日证监会令第53号))</b></p> <p>The Measures apply to acquisition and disposal activities outside the ordinary scope of business activities of listed companies.</p> <p>Article 11 defines significant asset transactions as the total consideration accounts over 50% of (i) total asset value, (ii) operating revenue, or (iii) net asset value and exceeds RMB50 million, of the listed company latest financial year's audited consolidated financial statements.</p> <p>Article 15 provides that where the consideration for a significant asset transaction is based on valuation results, a listed company must engage a qualified appraisal company to issue an asset valuation report.</p> <p>Article 20 provides that the asset valuation report, among other things, must be disclosed the business day after the board of the listed company has approved that asset transaction.</p> <p><b>Shanghai Exchange Listing Rules</b></p>	<p>There is no specific rule or regulation requiring property valuation reports</p>	<p><b>Listing Rules</b></p> <p><b>10.2.2</b> Except as otherwise provided in this chapter, transactions are classified as follows: ... (3) Class 1 transaction: a transaction where any percentage ratio is 25% or more;</p> <p><b>13.4.4</b> If a class 1 transaction relates to: 1) the acquisition or disposal of property; or 2) the acquisition of a property company that is not listed; the class 1 circular must include a property valuation report.</p>	<p><b>Listing Manual</b></p> <p><b>1015</b> (1) Where an acquisition of assets (whether or not the acquisition is deemed in the issuer's ordinary course of business) is one where any of the relative figures as computed on the bases set out in Rule 1006 is 100% or more, or is one which will result in a change in control of the issuer, the transaction is classified as a very substantial acquisition or reverse takeover. The issuer must, after terms have been agreed, immediately announce the following :- (a) the information required in Rules 1010, 1011, 1012 and 1013, where applicable; and (b) the latest three years of proforma financial information of the assets to be acquired. ... (3) The enlarged group must comply with the following requirements:-</p>

United States	PRC	Australia	UK	Singapore
	<p><b>9.2</b> A listed company must make disclosure when its transaction reaches any of the following standards:</p> <p>(1) total amount of assets involved in the transaction (if such assets have both book value and valuation, whichever is higher) accounts for more than 10% of the listed company's latest audited total assets;</p> <p>...</p> <p><b>9.3</b> When the transaction of a listed company... reaches any of the following standards, in addition to making timely disclosure, the company shall also submit the transaction to the shareholders' general meeting for consideration:</p> <p>(1) total amount of assets involved in the transaction (if such assets have book value and valuations, whichever is higher) accounts for more than 50% of the listed company's latest audited total assets;</p> <p>...</p> <p><b>9.13</b> A listed company shall disclose the following information on its transaction as applicable to the specific category of the transaction:</p> <p>...</p> <p>(3) particulars of the subject matter of the transaction, including its name, book value, valuation, operations, and whether relevant assets are subject to any mortgage, or involve the rights of a third party, whether the relevant assets involve major dispute, legal proceedings or arbitration or are subject to any judicial measures such as being sealed up or frozen; ...</p> <p>...</p> <p>Note: Shenzhen Stock Exchange Listing Rules have similar provisions</p>			<p>(a) For SGX Mainboard issuers, the requirements in Rule 210(1), (2)(a) or (b), (3), (4), (5) and (6), (7) and, if applicable, Rule 222<sup>16</sup>;</p> <p>(b) For Catalist issuers, the requirements in Rule 211 and, if applicable, Rule 222.</p> <p>...</p> <p><b>1016</b> Where the assets* being acquired are listed on the Exchange*, Rule 1015(3)(a) and (b) are not applicable.</p> <p>* "assets" includes securities and business undertakings; "the Exchange" refers to the Singapore Exchange Securities Trading Limited.</p>

<sup>16</sup> Rule 222 sets out the valuation report requirement for Property Investment/Development Companies, details of which are given in Appendix 1.A.

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## APPENDIX II: PROPOSED FORM OF SUMMARY DISCLOSURE FOR PROPERTY ACTIVITIES

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Proposed Main Board Appendix 26/ GEM Appendix 19

### [Types of properties]

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

### [Geographical region]

Use and name of projects	Total/Planned Gross Floor Area	Leasable/Saleable area	Number of rooms/units	Number of car parks	Attributable to the group	Tenure (year or leasehold expiry)	Construction commencement date (if under development)	Year of completion/Expected completion date	Development cost	Average occupancy rate	Average effective rent	Attributable independent valuation as at [date]
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For example:

#### Mixed use

#### [Name of project]

Residential  
Retail  
Office

#### Hotel

#### Office

#### Residential

#### Retail

#### Serviced apartments

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

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**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 shall come into operation on 2011.

**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 9B added**

After section 9A –

**Add**

**“9B. Exemptions from requirement for prospectus to set out a valuation report**

- (1) Subject to subsection (8), where it is proposed to offer any shares in or debentures of a company incorporated under the Ordinance by a prospectus issued generally, 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, if it complies with the conditions in subsection (3).
- (2) Subject to subsection (8), where it is proposed to offer any shares in or debentures of a company incorporated outside Hong Kong by a prospectus issued generally, 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, if it complies with the conditions in subsection (3).

- (3) The conditions referred to in subsections (1) and (2) are that:-
- (a) The company must obtain a valuation report from an independent qualified valuer as to the value of each Type A interest other than an exempt Type A interest and each Type B interest other than an exempt Type B interest as at a date no earlier than three months before the date of the prospectus;
  - (b) The prospectus must contain the following information:-
    - (i) in respect of any exempt Type A interest, as specified in subsection (4);
    - (ii) in respect of any exempt Type B interest, as specified in subsection (4);
    - (iii) in respect of any summary Type B interest, as specified in subsection (5);
    - (iv) in respect of any Type A interest which is not an exempt Type A interest, as specified in subsection (6); and
    - (v) in respect of any Type B interest which is not an exempt Type B interest or a summary Type B interest, as specified in subsection (6);
  - (c) In respect of any summary Type B interest, the company must make the full text of the valuation report in respect of each such property interest available for inspection by the public.
- (4) In respect of an exempt Type A interest or an exempt Type B interest, the prospectus must contain an overview setting out information on a collective basis regarding:-
- (a) each of the group's exempt Type A interests which is not covered by a valuation report set out in the prospectus; and
  - (b) each of the group's exempt Type B interests which is not covered by a valuation report set out in the prospectus,
- and the overview must include in respect of the property interests described in paragraphs (a) and (b):-
- (i) the number of property interests, including the number which are leased and the number which are owned;
  - (ii) the approximate size range of the property interests;
  - (iii) the uses of the property interests; and
  - (iv) the location and general description of the area where the property interests are located.
- (5) In respect of any summary Type B interest, the prospectus must contain at least a summary of the information in the valuation report in respect of the property interest, including:-
- (a) the purpose for which the property interest is held and the geographical region in which it is located;



- (b) the use and name of the property interest, total or planned gross floor area, the leasable or saleable area, the number of units and carparks, the nature of the tenure and the percentage interest attributable to the group;
  - (c) when development commenced, the year when the development was completed or is expected to be completed and the development cost; and
  - (d) the average occupancy rate and the average effective rent and the value attributable to the group.
- (6) In respect of –
- (a) any Type A interest which is not an exempt Type A interest; or
  - (b) any Type B interest which is not an exempt Type B interest or a summary Type B interest,
- the prospectus must contain the full text of each valuation report referred to in subsection (3)(a).
- (7) Each valuation report referred to in subsection (3)(a) must include the information required by paragraphs 34(2) and (3) of the Third Schedule to the Ordinance as well as the following information:-
- (a) any option or right of pre-emption concerning or affecting the property interest;
  - (b) the basis of and approach to valuation for the property interest to the extent that this has not been stated for the purposes of paragraph 34(3) of the Third Schedule;
  - (c) when the property interest was last inspected;
  - (d) a summary of the investigations carried out by the independent qualified valuer to arrive at the valuation, including details of the inspection, building conditions and availability of building services;
  - (e) the current planning or zoning use;
  - (f) the nature and source of information relied on;
  - (g) details of title and ownership of the property interest;
  - (h) details of encumbrances;
  - (i) if the valuation certificates of property interests are grouped together in the prospectus, an explanation of the groupings; and
  - (j) any other matters that may materially affect the value of the property interest.
- (8) Notwithstanding subsections (1) and (2), the prospectus must contain sufficient particulars and information regarding the group's property interests to enable a reasonable person to form a valid and justifiable opinion as required in paragraph 3 of the Third Schedule to the Ordinance.

(9) In this section –

**“carrying value”** (賬面值), in relation to a property interest, means the amount at which a property interest is recognised 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 amortisation, as the case may be, and accumulated impairment losses thereon;

**“exempt Type A interest”** (獲豁免 A 類權益) means –

- (a) any Type A interest which has a carrying value representing less than 15 per cent of the group’s total assets;
- (b) any mining property interest which has a carrying value representing less than 15 per cent of the group’s total assets;
- (c) any mining property interest which has a carrying value representing 15 per cent or more of the group’s total assets in circumstances where the prospectus contains a report from an independent qualified valuer regarding the value of the minerals or petroleum resources or assets associated with the mining property interest;

**“exempt Type B interest”** (獲豁免 B 類權益) means –

- (a) in circumstances where the aggregate carrying value of all Type B interests with a carrying value of less than one per cent of the group’s total assets does not exceed ten percent of the group’s total assets, any Type B interest which has a carrying value of less than one per cent of the group’s total assets;
- (b) in circumstances where the aggregate carrying value of all Type B interests with a carrying value of less than one per cent of the group’s total assets exceeds ten percent of the group’s total assets, only those Type B interests whose carrying values when added together do not exceed ten percent of the group’s total assets;

**“group”** (集團) 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 or buildings including fixtures and fittings, whether completed or in the process of development;

**“property activities”** (物業業務), in relation to any member of the group, means engaging in activity which includes –

- (a) holding, whether directly or indirectly, or developing properties, whether for letting or retention as investments;  
or
- (b) purchasing or developing properties for sale 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 as determined by an independent qualified valuer of less than five per cent of the aggregate valuation value of all Type B interests excluding any exempt Type B interests;

**“Type A interest”** (A 類權益) means an interest in any property that does not form part of the group’s property activities;

**“Type B interest”** (B 類權益) means an interest in any property that forms part of the group’s property activities;

**“total assets”** (資產總值) 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.

- (10) For the purposes of subsections (3) to (9), references to “company” include a company incorporated outside Hong Kong except where the context otherwise requires.”.

#### **4. Exemptions for valuation of operating leases**

Section 6 is repealed.

Martin WHEATLEY  
Chief Executive Officer,  
Securities and Futures Commission

2011

## Explanatory Note

1. 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 companies from 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 the prospectus from the requirement to set out valuation reports as required in paragraph 34(2) of the Third Schedule to the Ordinance. The exemption is applicable to certain types of property interests and is subject to certain conditions. The prospectus may contain an overview in respect of all property interests which are exempted and a summary for certain other property interests. The prospectus must contain the full text of valuation reports as well as certain additional information in respect of any property interest which is not exempted or for which a summary is not permitted. Notwithstanding the exemption, the prospectus must contain sufficient particulars and information regarding property interests to comply with paragraph 3 of the Third Schedule to the Ordinance.

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# APPENDIX IV.A: PROPOSED MAIN BOARD LISTING RULE AMENDMENTS TO PROPERTY VALUATION REQUIREMENTS

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## Main Board Listing 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 prospectus after deducting any accumulated depreciation (amortisation) and accumulated impairment losses. For an issuer, the amount at which an asset is recognised in its accounts or latest published interim report (whichever is more recent) after deducting any accumulated depreciation (amortisation) and accumulated impairment losses;
- (2) “property activities” mean holding (directly or indirectly) and/or development of properties for letting and retention as investments, or the purchase or development of properties for subsequent sale, or for retention as investments. It does not include holding of properties for own use;
- (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;
- (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 buildings, structures or facilities comprising a property development project (even if there are different phases);
- (e) one or more properties held for investment in one complex;
- (f) one or more buildings, 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 presented as a whole to the public as one 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. 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 the its total assets; and

(b) that do not form part of its 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 issuer’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 issuer’s circumstances. The valuer’s report setting out the information required by these Rules must be available for public inspection;

(b) for property interests of an issuer’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, there is 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; and
- (d) the general information in rule 5.10, if it applies.

5.01C Rules 5.01A and 5.01B 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 by an independent professionally qualified valuer of the Natural Resources.

### **Requirements for an issuer**

5.02 ~~In the case of~~ For an acquisition or realisation of any property, 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 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 company being acquired or disposed of is listed on the Exchange, except if it is a connected transaction; or
- (c) 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) if the circular includes a valuation by an independent professionally qualified valuer of the Natural Resources; or
- (d) 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 The circular 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
  - (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;
  - (c) for a company listed on the Exchange whose assets consist solely or mainly of property, 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; and
  - (d) the general information in rule 5.10, if it applies.
- 5.03 ~~In the case of~~ For an acquisition or a 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 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.

...

### **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) extent of investigation, 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;  
and
- (s) 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. 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 assets are held. For example, owned or leased. If leased, what's is the remaining term;
- (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) future plans for construction, renovation, improvement or development of the property and estimated associated costs; and

(i) any other information considered important 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;

...

...

*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 interest (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 interests in properties 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 5.04~~) 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 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.

...



**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 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.

...

## 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:–

...

...

---

## APPENDIX IV.B: PROPOSED GEM LISTING RULE AMENDMENTS TO PROPERTY VALUATION REQUIREMENTS

---

### GEM Listing Rule amendments

#### Chapter 8

#### GENERAL

#### VALUATION OF AND INFORMATION ON PROPERTIES

##### Definitions

##### 8.01 In this Chapter: -

- (1) “carrying amount”, for an applicant, the amount at which an asset is recognised in the most recent audited consolidated balance sheet of the group as disclosed in the prospectus after deducting any accumulated depreciation (amortisation) and accumulated impairment losses. For an issuer, the amount at which an asset is recognised in its accounts or latest published interim report (whichever is more recent) after deducting any accumulated depreciation (amortisation) and accumulated impairment losses;
- (2) “property activities” mean holding (directly or indirectly) and/ or development of properties for letting and retention as investments, or the purchase or development of properties for subsequent sale, or for retention as investments. It does not include holding of properties for own use;
- (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;
- (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 buildings, structures or facilities comprising a property development project (even if there are different phases);
- (e) one or more properties held for investment in one complex;
- (f) one or more buildings, 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 presented as a whole to the public as one 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. 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 property activities (or, for debt securities, the guarantor’s) 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 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 issuer’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 issuer’s circumstances. The valuer’s report setting out the information required by these Rules must be available for public inspection;
- (b) for property interests of an issuer’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, there is 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; and

(d) the general information in rule 8.36, if it applies.

8.01C Rules 8.01A and 8.01B 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 by an independent professionally qualified valuer of the Natural Resources.

### **Requirements for an issuer**

8.02 ~~In the case of~~ For an acquisition or disposal of any property, 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 company being acquired or disposed of is listed on the Exchange, except if it is a connected transaction; or
- (c) 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) if the circular includes a valuation by an independent professionally qualified valuer of the Natural Resources; or
- (d) 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 The circular 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;
- (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 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
- (iii) an overview of property interests not covered by a valuation report, including their number and approximate aggregate sizes, uses, how they are held and the general description of the area where they are located;
- (c) for a company listed on the Exchange whose assets consist solely or mainly of property, an overview of property interests not covered by a valuation report, including their number and approximate sizes, 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.

### **Valuation reports 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) extent of investigation, 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;  
and
- (s) 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 The listing document, or a circular 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 the where the property is located (rather than only its address) and some market analysis. 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 assets are held. For example, owned or leased. If leased, what's is the remaining term;

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

(i) any other information considered important 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 set out in that Chapter on the property interest being acquired or disposed of;

...

...

*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 (other than 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 ~~of~~ all the issuer's interests in property 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 ~~3950A~~ 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 for property interests~~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 assets to be valued (in accordance with ~~Chapter 8~~ Rule 8.01) 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 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.

(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 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 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.



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## **APPENDIX V: PERSONAL INFORMATION COLLECTION AND PRIVACY POLICY STATEMENT**

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### **SFC's Personal Information Collection Statement**

1. This Personal Information Collection Statement (**PICS**) is made in accordance with the guidelines issued by the Privacy Commissioner for Personal Data. The PICS sets out the purposes for which your Personal Data<sup>17</sup> will be used following collection, what you are agreeing to with respect to the SFC's use of your Personal Data and your rights under the Personal Data (Privacy) Ordinance, Cap. 486 (**PDPO**).

### **Purpose of Collection**

2. The Personal Data provided in your submission to the SFC in response to this Joint Consultation Paper may be used by the SFC for one or more of the following purposes:
  - to administer the relevant provisions<sup>18</sup> and codes and guidelines published pursuant to the powers vested in the SFC;
  - in performing the SFC's statutory functions under the relevant provisions;
  - for research and statistical purposes;
  - for other purposes permitted by law.

### **Transfer of Personal Data**

3. Personal Data may be disclosed by the SFC to members of the public in Hong Kong and elsewhere, as part of the public consultation on this Joint Consultation Paper. The names of persons who submit comments on this Joint Consultation Paper together with the whole or part of their submission may be disclosed to members of the public. This will be done by publishing this information on the SFC's website and in documents to be published by the SFC during the consultation period or at its conclusion.

### **Access to Data**

4. You have the right to request access to and correction of your Personal Data in accordance with the provisions of the PDPO. Your right of access includes the right to obtain a copy of your Personal Data provided in your submission on this Joint Consultation Paper. The SFC has the right to charge a reasonable fee for processing any data access request.

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<sup>17</sup> Personal Data means personal data as defined in the Personal Data (Privacy) Ordinance.

<sup>18</sup> Defined in Schedule 1 to the SFO to mean provisions of the SFO and subsidiary legislation made under it; and provisions of Parts II and XII of the Companies Ordinance (Cap. 32) so far as those Parts relate directly or indirectly, to the performance of functions relating to: prospectuses; the purchase by a corporation of its own shares; a corporation giving financial assistance for the acquisition of its own shares etc.

## **Retention**

5. Personal Data provided to the SFC in response to this Joint Consultation Paper will be retained for such period as may be necessary for the proper discharge of the SFC's functions.

## **Enquiries**

6. Any enquiries regarding the Personal Data provided in your submission on this Joint Consultation Paper, or requests for access to Personal Data or correction of Personal Data, should be addressed in writing to:

The Data Privacy Officer  
The Securities and Futures Commission  
8th Floor, Chater House  
8 Connaught Road Central  
Hong Kong

**A copy of the Privacy Policy Statement adopted by the SFC is available upon request.**

## **HKEx's Personal Information Collection and Privacy Policy Statement**

### **Provision of Personal Data**

1. Your supply of Personal Data to HKEx is on a voluntary basis. "Personal Data" in these statements has the same meaning as "personal data" in the Personal Data (Privacy) Ordinance, Cap 486, which may include your name, identity card number, mailing address, telephone number, email address, login name and/or your opinion.

### **Personal Information Collection Statement**

2. This Personal Information Collection Statement is made in accordance with the guidelines issued by the Privacy Commissioner for Personal Data. It sets out the purposes for which your Personal Data will be used after collection, what you are agreeing to in respect of HKEx's use, transfer and retention of your Personal Data, and your rights to request access to and correction of your Personal Data.

### **Purpose of Collection**

3. HKEx may use your Personal Data provided in connection with this consultation paper for purposes relating to this consultation and for one or more of the following purposes:
  - administration, processing and publication of the consultation paper and any responses received;
  - performing or discharging HKEx's functions and those of its subsidiaries under the relevant laws, rules and regulations;
  - research and statistical analysis; and

- any other purposes permitted or required by law or regulation.

### **Transfer of Personal Data**

4. Your Personal Data may be disclosed or transferred by HKEx to its subsidiaries and/or regulator(s) for any of the above stated purposes.
5. To ensure that the consultation is conducted in a fair, open and transparent manner, any response together with your name may be published on an “as is” basis, in whole or in part, in document form, on the HKEx website or by other means. In general, HKEx will publish your name only and will not publish your other Personal Data unless specifically required to do so under any applicable law or regulation. If you do not wish your name to be published or your opinion to be published, please state so when responding to this paper.

### **Access to and Correction of Data**

6. You have the right to request access to and/or correction of your Personal Data in accordance with the provisions of the Personal Data (Privacy) Ordinance. HKEx has the right to charge a reasonable fee for processing any data access request. Any such request for access to and/or correction of your Personal Data should be addressed to the Personal Data Privacy Officer of HKEx in writing by either of the following means:

By mail to:                    Personal Data Privacy Officer  
                                         Hong Kong Exchanges and Clearing Limited  
                                         12th Floor, One International Finance Centre  
                                         1 Harbour View Street  
                                         Central  
                                         Hong Kong

By email to:                    [pdpo@hkex.com.hk](mailto:pdpo@hkex.com.hk)

### **Retention of Personal Data**

7. Your Personal Data will be retained for such period as may be necessary for the carrying out of the above-stated purposes.

### **Privacy Policy Statement**

8. HKEx is firmly committed to preserving your privacy in relation to the Personal Data supplied to HKEx on a voluntary basis. Personal Data may include names, identity card numbers, telephone numbers, mailing addresses, e-mail addresses, login names, opinion, etc., which may be used for the stated purposes when your Personal Data are collected. The Personal Data will not be used for any other purposes without your consent unless such use is permitted or required by law or regulation.
9. HKEx has security measures in place to protect against the loss, misuse and alteration of Personal Data supplied to HKEx. HKEx will strive to maintain Personal Data as accurately as reasonably possible and Personal Data will be retained for such period as may be necessary for the stated purposes and for the proper discharge of the functions of HKEx and those of its subsidiaries.