Frequently Asked Questions Series 15 (Released on 20 October 2011)

Rule amendments relating to property valuation requirements (effective 1 January 2012)

Status of "Frequently Asked Questions"

The following frequently asked questions (FAQs) are designed to help applicants and issuers to understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Listing Rules or where further clarification may be desirable.

Users of the FAQs should refer to the Rules themselves and, if necessary, seek qualified professional advice. The FAQs are not substitutes for the Listing Rules. If there is any discrepancy between the FAQs and the Listing Rules, the Listing Rules prevail.

In formulating our "answers", we may have assumed certain underlying facts, selectively summarised the Listing Rules or concentrated on one particular aspect of the question. They are not definitive and do not apply to all cases where the scenario may at first appear similar. In any given case, regard must be had to all the relevant facts and circumstances.

The Listing Division may be consulted on a confidential basis. Contact the Listing Division at the earliest opportunity with any queries.

No.	Main Board Rules	GEM Rules	Query	Response
1.	Chapter 5	Chapter 8	Is an applicant/issuer only required to disclose valuation information relating to its property interests under Chapter 5 of the Main Board Rules/Chapter 8 of the GEM Rules in the listing document/circular?	No. Under the general disclosure obligation in the Companies Ordinance and the Listing Rules (for applicant, see Main Board Rule 11.07/GEM Rule 14.08(7); for issuer, see Main Board Rule 14.63(2)(a)/GEM Rule 19.63(2)(a)), a listing document/circular must contain sufficient particulars and information necessary for an investor to make an informed decision.
2.	5.01(1)	8.01(1)	How is the acquisition cost determined if an acquisition is made after the latest consolidated audited accounts?	The acquisition cost should be determined based on the appropriate accounting treatment used by the acquiror in preparing the financial statements.
3.	5.01(1)	8.01(1)	How should an applicant ascertain the carrying amount of a property interest?	The carrying amount of a property interest must be ascertainable from the books and records of the applicant and consolidated into its balance sheet. Disclosure of a breakdown of property interests in the listing document is not required. The carrying amount of a property interest used to calculate the percentages under which a property valuation is not required should be the amount reported in the consolidated balance sheet of the applicant. It should not be the effective value based on the applicant's percentage holding in the subsidiary (or the entity that is consolidated into the balance sheet). For example, an 80% owned subsidiary of an

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				applicant holds a property interest with a carrying amount of $200 million. The carrying amount of $200 million should be used instead of $160 million.
4.	5.01(2)	8.01(2)	Can an applicant engage in both property activities and non-property activities?	An applicant can engage in both property activities and non-property activities. An applicant should consider each property's use. If a property is for letting or sale, then it would be categorised into property activity. So even where an applicant's core business is not property development or investment, its property interest may still be categorised into property activity.
5.	5.01(2)	8.01(2)	Does "holding (directly or indirectly)" means holding by the applicant or its subsidiaries, or does it also include holding by entities that the applicant has no control of, such as associated companies or jointly controlled entities?	"Holding (directly or indirectly)" includes property interests that are recognised in the consolidated balance sheet of the applicant. Whether a property interest held by a jointly controlled entity is recognised in the consolidated balance sheet of the applicant depends on the accounting treatment adopted by the applicant.
6.	5.01(2)	8.01(2)	Should retail outlets occupied by an applicant for its operations be categorised into a property activity or a non-property activity?	Retail outlets occupied by an applicant for its operations should be categorised into non-property activity.

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7.	5.01A(a)	8.01A(a)	How should an applicant identify properties up to the 10% limit in Main Board Rule 5.01A(a)/GEM Rule 8.01A(a)? If there are two properties with similar carrying amounts crossing the 10% limit at the same time, which property should be valued?	Generally, an applicant should identify the carrying amount of each property interest and add up from the lowest values until the 10% limit is reached. Property valuations will not be required for property interests comprising the lowest 10%. 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 (see Main Board Rule 5.01B/GEM Rule 8.01B). Where two properties have similar carrying amounts that would cross the 10% limit, we would leave it to the applicant and its advisers to determine taking into account the general disclosure obligation. For example, an applicant may have 15 properties representing 10.12% of its total assets. The largest and second largest of these 15 properties are a property in Mongolia representing 0.97% of its total assets and a Hong Kong property representing 0.85% of its total assets. The total amount of non-valued properties would be less than the 10% limit if either one of these two properties (each with an amount below 1% threshold) is valued. An applicant may value the 0.85% Hong Kong property instead of the 0.97% Mongolian property on the basis that it would be unduly burdensome.

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8.	5.01B(b)(ii)	8.01B(b)(ii)	What is the timing reference point for the statement "except for the property interests in the valuations reports, no single property interest that forms part of its non-property activities has a carrying amount of 15% or more of total assets"?	The timing reference point for the statement is the listing document date.
9.	5.02	8.02	Please clarify whether an issuer must comply with Main Board Rule 5.02A(e)/GEM Rule 8.02A(e) and Main Board Rule 5.02B(ii)/GEM Rule 8.02B(ii) as well as the current Rule that requires a valuation for an acquisition or disposal of a company whose assets consist solely or mainly of property and where any of the percentage ratios of the transaction is or is above 25%.	The property valuation requirement is triggered when an issuer acquires or disposes of a company whose assets consist solely or mainly of property and where any of the percentage ratios of the transaction is or is above 25% under Main Board Rule 5.02/GEM Rule 8.02. An issuer should then identify each property interest in the company being acquired or disposed of and consider whether the carrying amount is below 1% of the issuer's total assets. Valuation is not required if a property interest 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.
10.	5.10	8.36	Please clarify how to determine when information under Main Board Rule 5.10/GEM Rule 8.36 should be disclosed.	An applicant must disclose information on its material property interests. The information must be meaningful for investors to make an informed decision regarding the company. We expect applicants and sponsors to consider materiality taking into account all the relevant facts and circumstances and disclose property valuations and/or relevant information for material property

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				interests. There is no definition of materiality in the Listing Rules. 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.

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				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.