The Stock Exchange of Hong Kong Limited

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

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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

Chapter 5 of these Rules sets out valuation and other disclosure requirements for property interests 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 these reports shall contain other information the Exchange may require. This Practice Note is intended to set out the information to be included in a valuation report under rule 5.06(9) for property situated in a developing property market.

3. Early consultation

The Exchange encourages new applicants and listed issuers who have made or intend to make acquisitions of properties in any developing property market to contact the Listing Division of the Exchange for confidential advice as to whether, in the opinion of the Exchange, a valuation for such property is capable of being included, or will require to be included, in a listing document or any circular to shareholders and the information such document or valuation report should contain.

4. Professional qualifications of the Independent valuer

4.1 For the purpose of valuing properties in developing property markets, a valuer would normally be regarded as having the appropriate professional qualifications and experience for valuing properties in developing property markets if he is subject to the discipline of The Royal Institution of Chartered Surveyors ("RICS") or the HKIS or professional body of similar standing to the RICS or HKIS and has a minimum of 2 years experience in valuing properties in the relevant location or has relevant experience to the satisfaction of the Exchange.

4.2 The professional qualifications of the valuer and his experience in valuing properties within the relevant location (and, where the valuation is made on behalf of a valuation company, his experience with the company) should be disclosed in the valuation report.

5. Establishment of title

5.1 A valuation report for any property must state whether the relevant party has vested legal title to the relevant property. The relevant document should also contain a statement of such fact and any material conditions affecting title. Such statement should clearly distinguish which properties (for which valuation reports are included in the document) are vested in the relevant party and which are not. Such statement should also summarise the material information regarding title and other relevant matters contained in any legal opinion, in the case of properties located in the People's Republic of China ("PRC"), referred to in paragraphs 5.2(a), (b), and 5.3 below.

5.2 In the case of a property located in the PRC:

(a) a long-term land use right certificate will be treated as the operative equivalent to the Hong Kong legal concept of vested title to the relevant property. The listing applicant or listed issuer should confirm, with the benefit of a PRC legal opinion from a firm authorised by an appropriate authority in the PRC to advise in relation to listed companies, whether a long-term land use right certificate has been obtained by the relevant party in respect of the relevant property. The Exchange may require production of the land use certificate and may require that it be made available for inspection; or

(b) in respect of a grant of land by a government land administration bureau in the PRC or with respect to a transfer of land use rights where the issue of a land use right certificate is pending, a properly approved land grant or land transfer contract in writing accompanied by a PRC legal opinion (as described in sub-paragraph (a) above) as to the validity of the approval may be acceptable as evidence of a transferee's pending title to the land to be granted or transferred. The Exchange may require production of the approved contract and may require that it be made available for inspection.

5.3 In the case of a property located in the PRC, where the relevant property is held or being acquired for development and where the residual method is used as the primary basis for the valuation, the relevant party should obtain an acceptable PRC legal opinion (as described in paragraph 5.2(a) above) which describes all consents, permits and regulations which need to be obtained or satisfied in respect of the development, or proposed development upon which any valuation is based. Such opinion should confirm whether and to what extent consent has been obtained for the proposed development and all such information should be included in the valuation report and in the relevant document.

6. Joint venture interests

6.1 In the case of property held by any joint venture entity or pursuant to some other form of joint arrangement, the legal opinions referred to in paragraphs 5.2 and 5.3 above should include a description of the significant terms of the joint venture arrangement including a description of the equity and profit sharing arrangements of the parties to the agreement. In addition, any opinion should state whether the relevant joint venture company has obtained all necessary licenses to operate in the location where the relevant property is situated. A summary of the content of such opinion should also be disclosed both in any valuation report and in the relevant document.

6.2 Where a new applicant or listed issuer has or is proposing to acquire an interest in a joint venture vehicle situated in the PRC where the relevant property asset is beneficially owned or retained by one of the parties to the joint venture agreement and does not vest in the joint venture entity, and where the listing applicant or listed issuer has or is intending to acquire some right to occupy or to enjoy income or profit therefrom, then the PRC legal opinion described in paragraph 5.2(a) above should also confirm:

(a) the exact nature of the interest in the joint venture vehicle which the listing applicant has or the listed issuer is intending to acquire;

(b) whether the terms of any joint venture agreement provide for the transfer of the legal title to any property to the joint venture vehicle and the status of such transfer;

(c) whether the right the new applicant has or the listed issuer is intending to acquire is capable, as a matter of PRC law, of being granted by the party in whom legal title to the relevant property is vested;

(d) whether and to what extent the right acquired or to be acquired is enforceable in the PRC and whether it will be freely transferable by the listing applicant or the listed issuer to any other third party; and

(e) whether all relevant regulatory approvals have been obtained.

7. Disclosure of legal opinions to the valuer

In all cases where a legal opinion is required, such opinion together with copies of any document referred to therein should be made available to the valuer carrying out any valuation in respect of relevant property prior to the completion of the valuation report and the valuer shall explain whether and if so how he has taken account of the content of such opinion in the valuation of the relevant property.

8. Contents of the Valuation Report

8.1 Where the relevant property has been valued on an open market basis, but such valuation is not by reference to comparable market transactions, the valuer may be required to discuss and disclose the assumptions underlying the open market valuation method in the context of the developing property market in which the relevant property is situated. Valuers may be asked to justify the assumptions they have made in the valuation report particularly where local market conditions or legal circumstances may differ greatly from those in Hong Kong.

8.2 The valuer in any valuation report must clearly state the nature of the interest which is being valued, taking account of the content of any legal opinion provided to him relating to the relevant property. In particular the valuation report should clearly state whether the valuation is of a vested legal right or of a right to acquire a vested legal right to the relevant property or, for example, only a right to occupy the relevant property for a fixed period or to enjoy rents or other income therefrom.

8.3 Where the property the subject of the valuation report has been valued on an open market basis and by reference to the residual method, the valuation report should:

(a) state this fact;

(b) describe the valuation method used together with a brief description of that method in simple language;

(c) provide a statement showing:—

(i) gross development value of the various components in the proposed development with an explanation of any comparables used and the adjustments made to arrive at the figure for gross development value;

(ii) construction costs based on the report of a properly qualified quantity surveyor as referred to in paragraph 8.4 below;

(iii) all fees charged or to be charged;

(iv) interest charges;

(v) developer's profit; and

(vi) any other component or comparable figure used in the residual method; and

(d) describe the assumed development potential for the relevant property, including relevant plot ratios. Any approval or any indication from any competent authority which differs from the development potential or plot ratios assumed by the valuer should be set out in the valuation report. If no relevant approval has been obtained from a competent authority the valuer should state the source of and the basis of the assumptions used.

8.4 Where the valuation figure is derived through use of the residual method, the new applicant and/or listed issuer should in addition instruct a professionally qualified quantity surveyor acceptable to the Exchange to verify the estimated costs of carrying out the development. The report of the quantity surveyor should be included together with the valuation report.

9. Income or profit method of valuation

Where relevant property (or part thereof) has been valued through use of the profit or income method of valuation, the valuation report should in addition state the assumptions upon which this method is based and whether there is any comparable market evidence, for example, in the case of a hotel, of room rates and occupancy levels in the same or similar location to the relevant property.

10. Notifiable Transactions and Connected Transactions

Where in any transaction which are subject to Chapters 14 and/or 14A of the Exchange Listing Rules, the relevant party is or intends to contribute capital or to contribute to or become liable for all or part of the cost of development of any property project or development, or to any company or venture involved in any development project, then the Exchange:

(a) may require further disclosure of how such capital contribution or development costs have been derived;

(b) may require an independent valuation report even if such report is not expressly required under Chapter 5 of these Rules; and

(c) may consider taking account of such capital or cost contributions when considering whether the transaction falls within any of the categories of notifiable transactions and connected transactions referred to in Chapters 14 and 14A of the Exchange Listing Rules.

11. Statement by directors

Where valuations are required under Chapter 5 of these Rules or under paragraph 10(b) of this Practice Note and where the primary method for valuing 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 that statement the directors or, for a connected transaction, the independent directors, must:—

(a) critically discuss and assess the assumptions made by the valuer as disclosed in the valuation report for the aforesaid categories of property and the material effect that any variation of those assumptions may have on the valuation figure;

(b) critically discuss the effect of any material conditions affecting the status of the legal title to any such property as disclosed in any legal opinion obtained in respect of such property;

(c) describe in the case of property in the process of being developed or held for future development, and where the valuation is based on the expected sale value of the completed development, the exact stage at which any proposed development has reached; and

(d) describe all known relevant local taxes which may be charged in respect of any proposed property development project and explain how such taxes could affect the calculation of developers profit contained in any calculation pursuant to the residual method, and the consequent effect on any valuation figure.

12. **Accountancy Treatment**

In all cases where a valuation report is required the Exchange may also require the directors to describe the accounting treatment to be adopted in respect of any property assets situated in a developing property market.

13. **Warning Statement**

Where the residual method is used, the valuation report should include a general warning statement in the form attached hereto.

14. **Exchange Rates**

Where any figures or calculations rely on exchange rates, the rate used and relevant date should be stated. Where there has been a fluctuation in exchange rates between the date of the valuation and the date of the listing document or circular to shareholders, this fact together with the effect of the fluctuation on the valuation in the valuation report should be set out.

15. **Connected Transactions**

In the case of connected transactions, where the valuer has relied upon information supplied by a connected person this should be clearly stated in the valuation report and the extent to which the valuer has independently verified this information should be set out prominently in the relevant document.

16. **Date and Cost of Original Acquisitions**

Where the property the subject of the valuation has been acquired within five years of the date of valuation, the new applicant or the listed issuer should supply to the valuer for inclusion in his report the relevant date and cost of acquisition and the total costs expended on the property, which should be included alongside the current valuation figure.

17. **Risk Factors**

Where property assets situated in developing property markets represent substantially the whole or a majority of the assets of the new applicant or listed issuer, the warning in paragraph 13 above should, if applicable, also appear in the "Risk Factors" section of the relevant document.

18. This Practice Note replaces Guidance Note 5 and takes effect from 16th October, 1995.

Hong Kong, 16th October, 1995

Revised on 31st March, 2004

Warning Statement

"The valuation arrived at has not been determined by reference to comparable market transactions which is the most reliable method for valuing property assets and the most common method used for valuing properties in Hong Kong. In contrast, because of the lack of comparable market transactions in the locality in which the subject property is situated this valuation has used the residual method which is generally acknowledged as being a less reliable valuation method. The residual method is essentially a means of valuing land by reference to its development potential by deducting costs and developer's profit from its estimated completed development value. It relies upon a series of assumptions made by the valuer which produce an arithmetical calculation of the expected current sale value as at [date] of a property being developed or held for development or redevelopment. Where the property is located in a relatively under-developed market such as [place] those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised its professional judgment in arriving at the value, investors are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report."