Practice Note 7 (PN7) – Treatment of certain assets for the purpose of Rule 11.1(f)

Rule 11 of the Takeovers Code~~ deals with asset valuations. Rule 11~~ provides that when valuations of assets are given in connection with an offer, details of the valuations

Rule 11.1(f) provides further guidance on the meaning of “significant property interests”:

“As a general guide, ~~this should be taken to refer to~~ a company ~~or group of companies,~~has “significant property interests” if the book value of ~~whose property assets or~~its consolidated property assets~~,~~ respectively, **exceeds 15% of t**[redacted]

~~have~~They suggested that certa[redacted]ot be regarded as property assets for the purpose[redacted] 15% threshold even though they may be listed[redacted]balance sheet as "buildings" or "plant and buildings". For example, it has been suggested that account should not be taken of properties of a mining company which are used for smelting or storage purposes or infrastructure such as roads at the mining sites.

The Executive agrees that in some circumstances the strict application of Rule 11.1(f) may be unduly burdensome and should be decided on a case-by-case basis.

With regard to right-of-use (ROU) assets as defined under International Financial Reporting Standard 16 (IFRS 16) 'Leases'[1], although IFRS 16 treats the right to use the asset under a lease as an asset on the company's balance sheet, the lessee does not have legal ownership of the underlying leased asset as it remains with the lessor. Given this, ROU assets should not normally be regarded as a company's property assets for the purposes of the Takeovers Code. It follows that the values of these ROU assets should normally be excluded when determining whether a company has significant property interests of 15% and 50% under Rule 11.1(f).

If parties or their advisers are in doubt as to whether certain assets should be taken into account for the purpose of calculating the ~~15%~~ ~~threshold~~relevant thresholds, they should consult the