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Our Ref: GE/CS/14

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## BY FAX (2877 0318) AND BY POST

The Securities and Futures Commission  
35/F., Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

Dear Sirs,

## Re: Consultation Paper on Amendments to the Code on Real Estate Investment Trusts

We refer to the Consultation Paper ("Consultation Paper") on Amendments to the Code on Real Estate Investment Trusts ("REIT Code") published by the Commission on 27 January 2014. We are fully supportive of the Government's efforts to introduce flexibility in respect of property development investments and related activities for REITs. This will provide more flexibility to REIT Managers to better manage REITs' yields and assets. We would like to share with you our views on some of the issues and other comments as raised in the Consultation Paper as follows:

### *Proposed Threshold Limit*

To some extent, the proposed amendments as detailed in the Consultation Paper would align the regulatory frameworks between Hong Kong and overseas jurisdictions. However, we consider the proposed threshold limit on property development investments and related activities to be still too restrictive.

While it is agreeable to impose a cap on development projects, we think that so long as no less than 75% of the REIT's Gross Assets Value ("GAV") are invested in real estate "that generates recurrent rental income at all times", we do not have to set a sub-limit of 10% for development or redevelopment projects. The REIT Manager shall be given the discretion and flexibility to invest the assets of the Trust in property development projects and/or financial instruments.

Furthermore, there will be instances where existing properties could be redeveloped or the adjoining properties could be acquired to facilitate comprehensive redevelopment for the benefit of unitholders even though their value exceeds the 25% non-recurrent rental income GAV cap ("25% GAV Cap"). We are of the view that if unitholders' approval is obtained (whether in the form of a general mandate or specific approval), a full waiver should be granted by the Commission for development that might be exceeding the 25% GAV Cap. Consideration of waiver should also be given to circumstances where such redevelopment requires confidentiality.

manager of the  
Champion Real Estate Investment Trust  
冠君產業信託之管理人  
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### *Profits Tax Concession*

We note that the Commission has stated in the Consultation Paper that a removal of profits tax could result in Hong Kong REITs becoming completely tax-free. We would like to point out that in some jurisdictions like Singapore, the trustee of a REIT can enjoy tax transparency treatment and its unitholders who being individuals are generally exempt from tax. We consider that profits tax concession is an attractive economic incentive for new REITs to be launched and this will largely enhance the competitiveness of the Hong Kong REITs market.

### *Stamp Duty Concession*

In addition, we are of the view that Hong Kong REITs need to be exempt from, or at least be subject to a concessionary rate for, the stamp duty on their transactions. In the current hard stamp duty regime, it is punishingly expensive for sponsors to inject their properties into new REITs or for existing REITs to grow by acquiring newly built properties.

### *Service Pledge*

REIT Code is the major regulatory framework established for the authorization of a REIT. However, not all corporate exercises are envisaged within this authorization document. Therefore, the Commission usually will need to take a longer than expected time to respond or raise questions to REIT Manager's enquiries on what can be done and what cannot be done notwithstanding that such exercise is not uncommon in the Stock Market. Time is of the essence for most corporate exercises. It is important that REITs are put on par with other listed issuers to capture corporate opportunities and financing windows. We strongly recommend the Commission to provide a service pledge to the REITs for all enquiries. It is vital to the further development of REITs and is beneficial to Hong Kong's long term growth as an international financial market.

We hope that the above comments can assist the Commission to portray the Hong Kong REITs market as an international premier asset management center. Meanwhile, if you require any clarifications on our comments, please do not hesitate to contact us. Thank you for your kind attention.

Yours faithfully,

For and on behalf of

**EAGLE ASSET MANAGEMENT (CP) LIMITED**