

LANGHAM

HOSPITALITY INVESTMENTS

FACSIMILE

To : The Securities and Futures Commission (Fax no. 2877 0318)
From :
Date : 26 February 2014
Subject : Consultation Paper on Amendments to the Code on Real Estate Investment Trusts ("Consultation Paper")
No. of pages : -3-

Dear Sirs,

We refer to the Consultation Paper published by the Commission on 27 January 2014 and attach herewith our response to the same for your kind attention.

Meanwhile, if you require any clarifications, please do not hesitate to let us know. Thank you for your attention.



Consultation Paper on Amendments to the Code on Real Estate Investment Trusts

Question 1: Do you consider that flexibility in respect of property development investments and related activities should be introduced for REITs?

We support the introduction of the amendments which facilitate the development of Hong Kong REITs

Question 2: Do you consider that the 10% GAV Cap is set as an appropriate threshold?

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, it is not necessary to set a sub-limit of 10% for development 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.

For the benefit of Unitholders, even though the value of the development exceeds the 25% non-recurrent rental income GAV cap ("25% GAV Cap"), we are of the view that if a mandate or specific approval from unitholders' is obtained, a waiver should be granted by the Commission for development that might be exceeding the 25% GAV Cap. Consideration shall also be given to the circumstances where redevelopment requires confidentiality.

Question 3: Do you have any comments on how the Property Development Costs should be calculated?

No particular comment

Question 4: Do you have any comments on the frequency of periodic updates that should be provided to unitholders on the status of property development investments and related activities?

No particular comment

Question 5: What additional safeguards do you consider appropriate to ensure there will not be any material change to overall risk profile of a REIT despite the flexibility to engage in a limited extent of property development investments and related activities?

We are of the view that the proposed safeguards are sufficient.

Question 6: Do you have any comments on the proposed scope of the Relevant Investments and the proposed Maximum Cap?

Please refer to the answer to question 2 above.

Question 7: What other safeguards do you consider appropriate to be put in place corresponding to the proposal to allow for the Relevant Investments?

No particular comment

Other Comments

We consider that profits tax concession is an attractive economic incentive for new REITs to be launched and this concession will largely enhance the competitiveness of the Hong Kong REITs market. We understand that at least in Singapore, the trustee of a REIT can enjoy tax transparency treatment and its unitholders who being individuals are generally exempt from tax.

Apart from profits tax concession, we also recommend that Hong Kong REITs shall be exempt from, or at least be subject to a concessionary rate for, the stamp duty on their transactions particularly under 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.