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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. To some extent, the proposed amendments would align the regulatory frameworks between Hong Kong and overseas jurisdictions and we wish to share our views and comments on some of the issues and the specific questions as raised in the Consultation Paper as follows:

**1. *Exemption from the 10% GAV Cap in the case of Single Development Property***

While it is agreeable to impose a cap on development projects, we think that the 10% Gross Assets Value ("GAV") cap shall apply only in the case of new development projects. There will be instances where existing properties should be redeveloped for the benefit of unitholders even though their value exceeds 10% of the GAV. We propose to the Commission that if a REIT is only redeveloping a single property, and has obtained the mandate of its unitholders by way of voting, that such development be exempt from the 10% GAV cap. Without this exemption, smaller REITs might find it difficult to participate in development projects.

**2. *Exemption from 75% Recurrent Rental Income Threshold***

The Commission proposed that no less than 75% of the GAV of REITs shall be invested in real estate "that generates recurrent rental income at all times". This is because the land where the redevelopment is occurring has a gross value but is not generating rental income. If the existing property being redeveloped is large, it may also reduce income generating properties to below the 75% threshold. Again, we propose that an exemption be granted if a REIT is only redeveloping a single property, and has obtained the mandate of its unitholders by way of voting.



Furthermore, we note that the Property Development Costs are on a total project costs "borne and to be borne" basis. There may be situations where the capital raised for a multi-phase development project has yet to be injected into the project leading to situations of "double counting" if the capital raised is parked in treasury notes for example. This is a reason for not lowering the 25% maximum cap.

**3. *Monthly Disclosure may be too onerous***

Monthly disclosure may impair a REIT's ability to transact its investments fairly as unit trusts are not required to release their holdings on a monthly basis. We suggest the monthly reporting requirement be dropped in favour of disclosing the investments only in the interim and annual reports, in line with other listed companies.

**4. *Other Comments - Concessionary Tax Rate***

We note that the Commission has stated in its consultation that a removal of profits tax could result in Hong Kong REITs becoming completely tax-free. We would like to point out that taxation issue is not an all or nothing proposition. Hong Kong REITs can also be taxed at a concessionary rate. In this compromise, Hong Kong REITs will not be tax free yet there will be a financial rationale for new REITs to be launched, allowing the REIT sector to develop.

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. It is currently punishingly expensive for sponsors to inject their properties into new REITs or for existing REITs to grow by acquiring newly built properties.

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

**GREAT EAGLE HOLDINGS LIMITED**