



Advocacy Business Consulting

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

By Email: reitsconsultation@sfc.hk

Tuesday, 25 February, 2014

Dear Sir,

Re: Amendments to the Code on Real Estate Investment Trusts

We are writing to support the proposed code changes to bring Hong Kong in-line with internationally established practices on regulation of REITs to enhance Hong Kong's competitiveness as an global asset management center. The conservative regulatory regime currently in place mandating REITs to devote 100% of its investments in rental property has an obvious restrictive effect on the development of Hong Kong's REIT market by deterring listing on the Hong Kong Stock Exchange.

In our opinion, the flexibilities for REITs listed in Hong Kong to undertake property development activities up to 10% of GAV and financial instruments up to a limit of 25% of GAV are manageable risks as long as proper disclosures are made. The proposed regime for disclosure outlined in the consultation paper are adequate for protection of unit-holders' interests.

By allowing REITs to take part in property development projects will strengthen the REITs capability to enhance income, both qualitatively and quantitatively. Given the existing requirement to pay out at least 90% of net income after tax to unit-holders, the proposed code changes will not bring about a fundamental or drastic change in the nature of REITs as investment vehicles generating rental income.

It is likely that some REITs will take the advantage of the code change and leverage on their existing assets for capital to invest in property development projects. Nevertheless, current

restrictions on gearing limit at 45% of GAV is sufficient as a safeguard and the provision is one of the most prudent regulatory regimes in the world.

The concern regarding financial risks as a result uncertainty in projects is unwarranted as Hong Kong has one of the most sophisticated construction sector in the world. Also, one should take note that under current regulatory regime REITs are permitted to undertake renovation projects which essential bring about the same effect to the risk profile. There is hence no reason why the proposed code changes should be rejected on the ground of risk profile increase.

The proposed code changes to allow REITs better manage its cash position by investing in financial instruments are also coherent of the principle of risk management by diversification. The requirements on disclosure, reporting and management of the disposal of the financial assets should their value exceed 10% of GAV of the REIT are deemed to be adequate for the protection of the unit-holders' interests.

The development of the REIT market is not only crucial to Hong Kong's position as the world's premier asset center but also an important opinion for retail investors especially the retiring population. Therefore we welcome the proposed changes to the code as recommended by the Financial Services Development Council.