

Investment Products Department
Securities and Futures Commission
8/F Chater House
8 Connaught Road
Central
Hong Kong

By Hand

27 May 2005

Dear Sirs

**CONSULTATION PAPER ON DRAFT PRACTICE NOTE ON OVERSEAS INVESTMENTS
BY SFC AUTHORISED REAL ESTATE INVESTMENT TRUST (THE “CONSULTATION
PAPER”)**

We fully support the proposal by the SFC to permit Hong Kong REITs to invest in overseas properties.

We set out below our comments on the Consultation Paper:

1 Gearing

We believe that the gearing ratio should be increased from the current 35% as stated in the Code on Real Estate Investment Trusts (the “Code”). Many real estate investment managers believe that an increased gearing ratio would enable them to achieve better yields on their investments. In the absence of removing the gearing restrictions altogether, we would support these being relaxed to 50%, as this would be consistent with other REIT markets.

2 Special product features

Payment of Management fees in units: We support the introduction of the ability of the manager to be issued with units in lieu of management fees because it will align the interests of the manager with those of the investors.

SOLICITORS

Resident Partners

Simon James Davies, Stephen Fletcher, Patrick Fontaine, James Gardner, Marc Harvey, Dean Lockhart, K.M. Teresa Ma, Andrew Malcolm, Zili Shao, Melvin Sng, Jeremy Webb, Betty Yap

Non-resident Partners

Celia C.L. Lam

Consultants

Vanessa K.L. Poon, Kelly Quinn, Christopher Stonehill, Michael Tam, David Yun

REGISTERED FOREIGN LAWYERS

Trevor Clark (*Partner, Linklaters London, Resident in Hong Kong*)

Christopher Kelly (*Partner, Linklaters London, Resident in Hong Kong*)

Sanghoon Lee (*Partner, Linklaters New York, Resident in Hong Kong*)

John Maxwell (*Partner, Linklaters London, Resident in Hong Kong*)

Patrick J. Sheil (*Partner, Linklaters New York, Resident in Hong Kong*)

Please refer to www.linklaters.com/regulation for important information on the regulatory position of the firm.

A05124035/0.2/27 May 2005

Linklaters

Performance fees: The REIT Code limits the payment of performance fees to a "high on high" basis by reference to net asset value. In other REIT markets the performance fee is paid by reference to increase in distributions per unit. We believe that the REIT Code should allow for more flexibility in designing performance fee arrangements.

SPVs: We believe that the limitation of 2 levels of SPVs should be amended to allow for greater tax engineering. Furthermore, the requirement that the SPVs be 100% controlled or owned by the REIT should be relaxed to allow more efficient structuring of offshore vehicles. In some jurisdictions at least a part of the SPV needs to be owned by a tax resident.

3 Application fee on cost recovering basis

The fee level should be clear and transparent. A fixed fee and scaleable component (by reference to assets under management/number of jurisdictions covered) might be the optimum structure.

4 Professional indemnity/title insurance

We do think that there should be any obligation on the management company to take out title insurance due to the high cost involved. The determination by the manager as to whether to acquire title insurance should be subject to cost and availability, as well as market practice and title risk. In the absence of removing the gearing restrictions altogether, we would support these being relaxed to 50%, as this would be consistent with other REIT markets.

5 Draft Practice Note

We generally believe that the Draft Practice Note is too prescriptive. Such disclosures may be costly, onerous and inhibit the development of the REIT market in Hong Kong.

We consent to this letter being posted on your website. Please contact Graham Turl on 2842 4854 if you have any further questions regarding our submission.

Yours faithfully



Linklaters