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We have reviewed the Consultation Paper on Draft Practice Note on Overseas Investments by SFC-Authorised Real Estate Trusts issued by the SFC on March 2005 and would like to put forth our comments on the paper.

General

The proposed requirements provide for overseas property investment by managers of a REIT and also further clarification on the roles and responsibilities of service providers to a REIT including the manager. Although we understand a certain level of detail is necessary in the requirements, we feel that parts of the Practice Note provides a level of detail which is overly prescriptive and may inhibit the service providers from efficiently carrying out their duties due to inflexibility and lack of discretion. This will inevitably lead to higher costs borne by the REIT and ultimately by end investors.

We also have concern at the proposal to issue amendments by way of a Practice Note rather than simply amending the Code. We feel this may lead to duplication, confusion as to meaning and possible contradiction.

Clause 21

Requires the listing agent and financial advisor to conduct independent due diligence on underlying properties of the REIT. Our concern here is whether this causes duplication of work as other service providers to the REIT, namely the manager, already need to satisfy that they have carried out sufficient due diligence on the underlying properties before investing.

Clause 35

We would like to suggest a slight amendment to this clause by adding the following words as underlined below:

"Given that local investors are generally not familiar with the characteristics and risks pertaining to overseas property investments of a REIT, the manager of a REIT that invests or proposes to invest in overseas properties shall ensure that..."

In addition to our above comments on the overall proposal, we would like to provide our comments on the specific issues listed by the Commission below:

(1) Yes, we feel the gearing ratio limit should be raised to 50% which would allow REITs more flexibility to enhance performance

(2) We agree with the view that special product features for REITs should be allowed as these can improve both the performance and marketability of REITs

(3) No we do not believe the REIT application fee should be levied on a cost recovery basis

(4) We believe the management company should take out professional indemnity insurance but in relation to title insurance, we do not believe suggesting the manager to take out title insurance at their own discretion is practical. We feel this discretion would actually be a burden on the managers as it is difficult to justify when title insurance should be taken. It is a logical assumption that the cost of title insurance for properties in less regulated jurisdictions would be far higher than more regulated jurisdictions. From a cost perspective, the premium may not be justifiable for the manager to take out the insurance but from a risk perspective, it may be quite the opposite.

We should also like to take the opportunity to suggest a further change to the Code in respect of the trustee being named as a connected person (Chapter 8.1(c)). Trustees must act in the best interests of investors and are bound by rules of client confidentiality. Since the trustee has no proprietary interest in the REIT, we do not believe that adding all of the associated companies of the trustee as connected parties, adds any inherent value and may not be to the advantage of investors. I would like to suggest amending clause 8.1(g) Code to read "a controlling entity, holding company, subsidiary or associated company of any of the entities in 8.1 (a), (b) & (d)."

I would be happy to discuss this last point or any others in this submission with you if that would be helpful.

We hope the above is useful for the Commission's review on the requirements for SFC-authorised REITs investing in overseas properties and welcome further discussion with you on the overall proposal.