

April 29, 2005

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

Dear Sir,

**Re: Consultation Paper on Draft Practice Note on Overseas Investments by
SFC-authorized Real Estate Investment Trusts (“REITs”)**

On behalf of the Hong Kong Investment Funds Association, I would like to welcome the proposal put forward by the Securities and Futures Commission (“SFC”) in the captioned paper to lift the geographical restrictions so that REITs may invest in real estate anywhere in the world. We believe this would greatly foster the development of the Hong Kong REIT market and would enable investors to effectively capitalize on investment opportunities offered in the global real estate market.

With respect to the specific questions raised in the consultation paper, we have the following comments/suggestions:

- 1. Based on the experience of REITs in other jurisdictions, do you think that the limit on gearing ratio should be raised to 40%-50%, from the current 35% stated in the Code?***

We generally believe that insofar as there is full disclosure of the risk implications, a relaxation in the gearing limit, say to 50%, would be helpful. This will bring Hong Kong in line with the more mature REIT markets. In addition, apart from the advantages listed out in the consultation paper, relaxing the gearing ratio would give REITs increased financial flexibility and potentially compensate for the tax inefficiencies and make the REIT vehicles more advantageous than simply setting up a Hong Kong property investment company.

- 2. Should the REIT application fee be levied on a cost recovery basis?***

One point worth mentioning is that generally for funds (including traditional unit trusts, hedge funds and MPF funds) offered in Hong Kong, application fee is treated as expenses in relation to the offering and is charged to the fund. The SFC may wish to take this into consideration when deciding the basis of the application fee for REITs.

3. Do you have any views on whether the management company could/should take out professional indemnity insurance and title insurance?

We generally believe that it may not be necessary for the management company to take out professional indemnity insurance (“PII”) because under Paragraph 17 (Notes 1 & 2) of the draft practice note, an overseas entity is already expected to take out PII. As such, it is debatable whether there is a need to impose a mandatory requirement for the management company to also take out PII.

4. Other comments:

• ***On-going supervision and monitoring of overseas investments***

Under the Code on REITs and the draft practice note, the valuer and the management company may delegate their functions to an overseas partner or appoint overseas entity to perform such function. With respect to the functions stated in paragraph 29 and 30 of the draft practice note, could the trustee execute similar delegation? It would be helpful if the SFC can clarify this point.

• ***Investments in China properties***

One of the important aspects of allowing REITs to invest in non-Hong Kong properties is the opportunities it presents to sponsors and REITs' managers to bring China properties into the REITs.

Under the proposal, it seems it would be possible for a Hong Kong REIT to buy and manage exclusively PRC properties. However, there is some uncertainty when one interprets this in the context of Clause 7.5 of the Code on REITs. C7.5 prescribes, inter alia, that:

- the special purpose vehicles are incorporated in jurisdictions which have established laws and corporate governance standards which are commensurate with those observed by companies incorporated in Hong Kong;
- the scheme has no more than two layers of special purpose vehicles.

In a number of jurisdictions, particularly those that have restrictions on foreign ownership of domestic property, it would be necessary to hold physical property in onshore corporate entities. For certain types of property, property holding in China requires an onshore PRC holding company. Thus, in order to enable managers to capitalize on the PRC property opportunities, would the SFC consider recognizing onshore domestic PRC SPV property holding companies as companies being from a jurisdiction which has a regulatory and corporate governance regime "commensurate" with that of Hong Kong? It would be helpful if the SFC can confirm that Mainland China property assets can, as a matter of practice, be packaged into the Hong Kong REITs.

We welcome opportunities to discuss this and I can be contacted on 2537 9912.

Yours faithfully,

Sally Wong
Executive Director