SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

Frequently Asked Questions relating to Real Estate Investment Trusts

This FAQ is prepared by the Investment Products Division and aims to provide basic information to market practitioners concerning the authorization of real estate investment trusts ("REITs") under the Code on Real Estate Investment Trusts (the "REIT Code"). Applicants are encouraged to contact the relevant case team in the Investment Products Division of the Securities and Futures Commission (the "SFC") if in doubt on any specific issues arising from the application/interpretation of the REIT Code. Please note that each application for authorization is considered on a case-by-case basis.

The information set out below is not meant to be exhaustive. This FAQ may be updated and revised from time to time. This FAQ is only for general reference. Compliance with all the requirements in this FAQ does not necessarily mean an application will be accepted or authorization will be granted. The SFC reserves the rights to exercise all powers conferred under the law.

Unless otherwise defined herein, all capitalised terms shall have the meanings given to such terms in the REIT Code.

	Question	Answer
Basic Requirements for Authorization		
1.	What does SFC authorization of REIT involve?	In order to be authorized as a REIT, the structure and investment restrictions of the scheme must comply with the REIT Code, unless a waiver is granted by the SFC. The scheme should also be listed on the Stock Exchange of Hong Kong. In summary, the scheme should be in trust form. It may adopt a stapled structure by stapling its units with securities of another listed entity (please refer to FAQ4 for further details). Qualified parties meeting the REIT Code requirements must be appointed to play the key roles of listing agent, trustee, management company, property valuer and auditor for the scheme. Where certain functions are delegated to third parties, the delegator should ensure that the delegatee(s) are qualified to perform the functions delegated and the delegator should maintain on-going supervision over the delegatee(s).

	Question	Answer
		The scheme should observe, on an ongoing basis, its post authorization obligations such as obtaining SFC's approval for marketing materials, changes to constitutive documents, announcements, circulars and notices, prior to distribution to investors. The scheme should also ensure that such approved documents are disseminated to investors in a timely manner or within the timeframe specified in the REIT Code.
2.	What are the essential conditions for REIT authorization?	A REIT seeking authorization from the SFC must have at least the following characteristics: (i) dedicated investments primarily in real estate that generate recurrent rental income; (ii) the greater proportion of income shall be derived from rentals of real estate; (iii) engagement of operators that meet the qualification requirements of the REIT Code; (iv) established risk control measures and, where applicable, procedures in place for monitoring the activities of delegates; (v) a dividend distribution policy whereby the scheme distributes at least 90% of its after tax net income to its holders; (vi) a defined borrowing limit of not more than 50% of gross asset value; (vii) provision for holders' approval on connected party transactions and such major decisions that will affect the interests of the holders; (viii) adequate and proper disclosure in offering documents; and (ix) evidence of intention to list on the Stock Exchange of Hong Kong. In relation to (ii) above, it is generally expected that non-rental income from real estate should in aggregate not exceed 30% of the gross revenue of a REIT. For the avoidance of doubt, ancillary income (such as property management fees, air conditioning service fees and other property related revenue) from a REIT's properties portfolio, which is contemplated under the relevant lease agreements and is part and parcel of REIT's property leasing business, may be regarded as rental income. The same principle should apply regardless of whether such income is from a wholly-owned, majority-owned or minority-owned property.
3.	Are all REITs required to fully comply with the REIT Code? Can waivers be obtained?	Applicants are expected to fully comply with the requirements set out in the REIT Code. These requirements should be construed in light of the General Principles of the REIT Code, which are designed to provide fairness to all parties concerned with an emphasis on safeguarding the interests of investors.

	Question	Answer
		The SFC may modify or relax the application of a requirement in the REIT Code if it considers that, in particular circumstances, strict application of the requirement would operate in an unduly burdensome or unnecessarily restrictive manner. The SFC will only grant waivers in exceptional circumstances specific to a REIT, bearing in mind that the SFC will not consider waiver applications that compromise any of the General Principles. Furthermore, costs alone are not sufficient justification for any waiver from compliance with the REIT Code. Each application for waiver will be considered on its own merits and an applicant should provide the SFC with clear and cogent reasons in support of the application for waiver, and demonstrate to the SFC that there are sufficient mechanisms in place to ensure that investors' interests will not be compromised. The SFC has the sole discretion to grant or refuse any waivers requested and may require, depending on the circumstances, that any approved waivers be disclosed.
REIT's Structure and Domicile		
4.	What type of REIT structure and form is acceptable?	The REIT should be constituted as a trust governed by Hong Kong Law with its assets held in a trust and segregated from the assets of its trustee, the management company, related entities, other collective investment schemes and any other entity. The REIT may adopt a stapled structure by stapling its units with securities of another listed entity so long as similar governance and investor protection measures are in place and requirements in the REIT Code are complied with in substance. Potential applicants may consult the Commission on their product proposals.
5.	Would I be able to set up umbrella REIT structures?	An umbrella fund structure is commonly found in conventional mutual funds/unit trusts in which various sub-funds are established under the same umbrella. Each sub-fund has a specific investment policy and operates independently from other sub-funds. However, the REIT Code currently only provides for a single-fund structure, in line with SFC's policy of introducing a simple product that is easily understood by retail investors. The SFC has to further study whether an umbrella structure is acceptable, and if so, whether such an

	Question	Answer
		umbrella should allow for inclusion of non-REIT collective investment schemes, and whether additional requirements are needed to ensure investors' interests are properly protected.
6.	Can I domicile a REIT in an overseas jurisdiction?	REITs must be domiciled in Hong Kong. However, REITs may invest in Hong Kong and/or overseas properties. Where special purpose vehicles ("SPVs") are used to hold properties, these SPVs may be domiciled overseas whose corporate laws and legal framework are commensurate with the Hong Kong system, in line with the practice among listed companies.
7.	What are the basic requirements for the use of SPVs?	In the case where a REIT holds properties via SPVs, the REIT must at all times maintain a majority ownership and control of each SPV. For the avoidance of doubt, SPVs do not include a joint venture entity minority-owned by the scheme. While these SPVs may be domiciled overseas, they should be established in jurisdictions which have established laws and corporate governance standards commensurate with those observed by companies in Hong Kong. The directors of these SPVs to be appointed by the REIT have to be appointed by the trustee of the scheme. In the case where an SPV has to be set up in a jurisdiction that does not fully satisfy the requirements in the REIT Code, the management company should demonstrate to the SFC's satisfaction that such establishment is necessary for the purpose of meeting the regulatory or legal requirements of an overseas jurisdiction or in special circumstances with valid justifications.
Application for REIT Authorization		
8.	Can a potential REIT applicant approach the SFC to discuss its authorization requirements before submitting a formal application?	The SFC welcomes such inquiries and invites applicants to discuss their applications and proposed schemes with SFC staff beforehand. Such preliminary meetings are useful to help SFC staff gain a better understanding of the scheme/strategy, and may also help the applicant to clarify specific requirements and structural issues. Do note that any views or comments by SFC staff during these preliminary meetings are not considered binding and are given on a without prejudice basis. Without reviewing the complete set of scheme documentation following a formal application, the SFC is unable to offer firm views.

	Question	Answer
9.	What are some important tips to remember when submitting an application to the SFC for REIT authorization?	Two main points to bear in mind: <u>Good quality documentation and adequate time</u> SFC staff should be given a reasonable amount of time to consider the documents submitted. The SFC expects submissions or draft documentation in relation to a REIT are prepared in accordance with the REIT Code requirements and should be in an advanced form. Information in the draft offering document and other application documents should be substantially complete (please refer to FAQ10 below for further details). Applicants should also be upfront in drawing the attention of the SFC to issues of difficulty and expect that more time may be needed to consider complex outstanding points or issues of difficulty. <u>Verification</u> The SFC will not verify the accuracy of statements made in the application or any documents submitted in connection with it. The onus is on the applicant and/or their professional advisers e.g. legal counsels to ensure that any statements made in the documentation are verified, up to date and accurate. If it subsequently becomes apparent that any statement made is inaccurate, the SFC reserves the right to require immediate action to rectify the error and take any appropriate actions against the applicant or persons making the statements, depending on the circumstances.
10.	Do the sponsor-related requirements of the HKEX apply to REITs?	The SFC in general seeks to regulate REITs, to the extent appropriate and practicable, with reference to the requirements applicable to listed companies under the Listing Rules (as amended from time to time). Accordingly and in line with the SFC's "Consultation Conclusions on the Regulation of IPO Sponsors", listing agents and applicants are generally expected to apply the sponsor-related requirements under the Listing Rules (with necessary changes being made, as if those provisions were applicable to REITs). In particular, please note the following: • When submitting an application to the SFC, applicants should ensure that the information in the draft offering document ("Application Proof") and other application documents are substantially complete (except in relation to information that by its nature can only be finalized and incorporated at a later date).

	Question	Answer
		• If the SFC decides the information is not substantially complete, the SFC will not continue to review any documents relating to the application and will return all documents to the listing agent except for the retention of a copy of these documents for record. • When submitting an Application Proof to the SFC, applicants must also submit a redacted version of the same to the Stock Exchange of Hong Kong for publication in accordance with its relevant rules. • For any returned application, the applicant can only re-submit the application not less than 8 weeks after the date of the return letter. The names of the listing agent and the applicant, together with the return date will be published on the HKEX's website. • Applicants should observe the requirements of the Stock Exchange of Hong Kong concerning the submission and publication of the Application Proof and Post Hearing Information Pack ("PHIP"), including the relevant guidance on the redaction of information in an Application Proof or a PHIP for publication purpose. • An application must not be submitted by or on behalf of a new applicant less than 2 months from the date of the listing agent's formal appointment. Listing agents and the applicant are reminded to refer to the relevant requirements of the Stock Exchange of Hong Kong as updated from time to time. Applicants may contact the Investment Products Division if they have any queries.
11.	How do I apply for authorization as a REIT (Application Form? Fees?)	New applicants without an e-IP Managing Company account have to contact the SFC's Investment Products Division to create an account before making an application via e-IP[1]. For further details, please refer to section 2 (Access to Corporate Administration (for e-IP)) of the User Guide: Corporate Administration (for e-IP). As a start, you have to complete and submit to the SFC the REITs Application Form via e-IP. A copy of the Application Form is available under "Investment Products: Forms & Checklists"

[1] Please refer to the circular entitled "Circular on launch of e-IP application/submission system on WINGS" dated 8 July 2024.

	Question	Answer
		in the "Forms" section on the SFC's website (www.sfc.hk). To help market practitioners prepare the supporting documents for their applications, the SFC has designed an Application Checklist for REITs, which can be downloaded from the above-mentioned section on the SFC's website. Any subsequent changes to documents submitted to the SFC should be properly and comprehensively marked up to facilitate review by SFC staff. A written confirmation of compliance signed by a senior executive or officer of the management company, or their respective legal advisers for the final version of the offering document and the constitutive documents should also be submitted via e-IP. During the application process, the SFC may request further information from the applicant to either support statements made in the application or to clarify specific issues. To facilitate the reviewing of an application, the SFC may invite an applicant to discuss its proposal with the SFC during the application process. An applicant should also note that an application fee has to be paid for an application (please refer to FAQ12 below on payment of fees). Once authorization is granted, the applicant has to pay an annual authorization fee and the first annual fee for the authorization to be effective. Please refer to the Securities and Futures (Fees) Rules for applicable fees. The SFC will normally issue a letter confirming that the application has been taken up within five business days of the receipt of the application unless the application is returned as referred to in FAQ10. Applicants are reminded that the application fee will not be returned once the application is taken up by the SFC, regardless of whether the Application Proof is subsequently returned by the SFC. **Agreements between the operators and their delegates are not required to be submitted to the SFC but should be made available to the SFC upon request. However, where there are delegations of duties involved, each of the delegators has to submit a written confirmation to the SFC stating that they have delegated all relevant and necessary functions as required by the delegatee(s) to properly perform their duties, and that the delegation agreements are legally enforceable.*

	Question	Answer
12.	What are the requirements for submitting documents and application fee in support of a new REIT application to the SFC?	To commence an application, various documents, including, for example, offering documents, duly signed and completed application form, application checklist and confirmations, as well as the application fee are required to be submitted to the SFC via e-IP. A) Submission of application documents by soft copy Apart from the declaration and undertaking (in the format as set out in Annex B to the Application Checklist for REITs) from each of the directors of the management company ("Specified Document"), applicants shall submit application-related documents by soft copy via e-IP). The official receipt date of a new REIT application shall be a business day on which the full and complete set of documents is received by the SFC via e-IP at or before 6 pm (after which the receipt date will be deemed as the following business day). B) Alternatives for signing application documents During the application process, you must complete the signing process for certain application documents (including the application form and the applicable Application Checklist for REITs) in e-IP. Please see section 4.1.2.5. entitled – "Completing the signing process for the Ordinary Form(s) & Checklist(s) (where applicable)" of the e-IP (Investment Products Division) User Guide for details. For other application documents not covered in the signing process in e-IP, please refer to the options below: Option 1: We will accept submission of un-signed copies of the relevant, application checklists, confirmations and other relevant documents other than the Specified Document (the "Relevant Forms"), which are required to be completed, as applicable, by an applicant or other parties, provided that the Relevant Forms shall be submitted with an email confirmation or other equivalents (from a person who meets the signatory requirements) that all information and, where applicable, confirmations and undertakings contained in the Relevant Forms (and all documents submitted relating thereto) are true and accurate. Option 2: An applicant may submit scanned copies of the Relevant Forms signed by a person who meets the signatory requirements.

	Question	Answer
		For the avoidance of doubt, submission of hard copies of the Relevant Forms is not required under both options. C) Payment of application fee The SFC will take up new REIT applications if they are in good order (please refer to FAQ10). The application fee has to be paid upon submission of the application or as soon as practicable following submission. In the latter case, the applicant shall contact its SFC case team to discuss the payment arrangement.
13.	Will an application lapse after a certain period of time? If so, how long? What should I do if my application has lapsed?	Reference is made to the circular of the SFC to applicants of SFC-authorized investment products relating to the revised application lapse policy dated 29 November 2013. In respect of applications received by the SFC on or after 1 January 2014, if, for any reason, 6 months have elapsed from the date on which the SFC formally takes up the application ("Take-up Date") and no authorization has been granted, the application will lapse, subject to the SFC's right to grant an extension, at its sole discretion. If, for any reason, 4 months have elapsed from the Take-up Date and no authorization has been granted, the SFC will issue a letter reminding and informing the applicant that the application will in general lapse at the expiry of 6 months from the Take-up Date. In cases of non-compliance with any key requirement(s), the SFC would be minded to issue a letter of mindedness to refuse an application earlier than 4 months from the Take-up Date where appropriate so that there is efficient use of resources for processing proper applications. In general, the SFC will only consider granting an extension under exceptional circumstances upon the submission of satisfactory grounds by the applicant. The application fee will not be refunded to the applicant. Once an application has lapsed, if the applicant wishes to re-submit its application, the applicant shall make a new application, whereupon it will need to pay the application fee for the new application and repeat the application procedures.

	Question	Answer
14.	Since an authorized REIT has to be listed, are there any other rules that a REIT should observe to facilitate its listing?	Yes. Since a REIT has to be listed on the HKEX, it must possess sufficient resources and expertise to meet the requirements of the HKEX and comply with the Listing Rules. The management company is expected to appoint a listing agent who is responsible for dealing with the HKEX on all matters in relation to its listing application and to discharge the duties as a sponsor. The SFC has reached an understanding with the HKEX to expedite the listing process of SFC-authorized funds, including REITs authorized under the REIT Code, in order to shorten the time process for the listing of SFC-authorized REITs. Essentially, the SFC is responsible for authorizing REITs, including the vetting of constitutional and offering documents, and the monitoring of ongoing compliance with the REIT Code. The HKEX deals with the listing of REITs, including the vetting of listing documents, supervision over the listing process and the monitoring of ongoing compliance with the Listing Rules.
15.	Paragraph B31 of Appendix B to the REIT Code provides that the offering document shall be accompanied by, among other things, the scheme's most recent audited accounts. What specific detail concerning financial information does the SFC expect these audited accounts to disclose? Does the SFC expect these audited accounts to be presented in any specific format?	7.6 of the REIT Code sets out the general requirements on reports made by accountants in respect of special purpose vehicles. However, the REIT Code does not prescribe the specific details concerning financial information to be disclosed in an offering document. As investors are most familiar with the accountants' reports prepared for listed companies under Chapter 4 of the Listing Rules, the SFC generally expects and requires the audited accounts of the scheme contained in an offering document of a REIT to follow the same format, and to the extent applicable contain the same financial and other information, as an accountants' report under Chapter 4 of the Listing Rules, apart from the information requirements in Appendix C to the REIT Code.
15A.	In respect of properties to be acquired by a REIT from its sponsoring entity for a new listing, what would be the level of recourse expected to be provided by the sponsoring entity?	In line with market and general commercial practices, indemnities are often provided by sponsoring entities in respect of properties sold to a REIT and warranty and indemnity insurance may also be obtained to provide a satisfactory level of recourse against the sponsoring entities in case of breach. The REIT manager and listing agent(s) should be satisfied that there are adequate arrangements to protect the interests of unitholders and that proper disclosure and risk warnings are set out in the offering document.

	Question	Answer
		The amount and level of indemnities to be obtained should take into account factors such as the (a) magnitude of risks; (b) presence of any known title issues or non-conformities; and (c) extent and results of the due diligence exercise performed. Typically, a REIT would be entitled to make an indemnity claim within two or three years after the listing, and for claims relating to fundamental warranties and tax, the time limit to make a claim would be seven years. In addition, the providers of the indemnities should be of good standing and credit. Potential applicants are welcome to consult the Investment Products Division regarding their new REIT listing proposals at an early stage.

	Question	Answer
Management of REITs		
16.	Who is qualified to manage a REIT?	The SFC recognises the property portfolio management experience of the key personnel for the purpose of assessing the qualifications of a REIT management company. To be an approved REIT manager, the manager must demonstrate, at a minimum, that it has the requisite competence, experience and resources to analyse the issues and risks involved in property investment, to develop, implement and keep up-to-date a set of effective internal controls and risk management system to deal with existing and foreseeable risks involved in property investments. The management company should ensure that it holds a licence for Type 9 regulated activity (asset management) and, where applicable, other type(s) of regulated activity such as Type 6 (advising on corporate finance). Where the management company is a newly formed company, an application has to be made to the Licensing Department of the SFC. Please refer to our Licensing Department's FAQs on REIT management company for further details. Do note that when applying for the management company's licence, it must be supported by a concurrent application to the SFC for authorization of a REIT in Hong Kong.
17.	Under what circumstances is a management company allowed to contract out functions to third parties?	The REIT Code does not stipulate the type of activities that the management company may delegate to third parties, as the types of functions delegated should depend on the pool of expertise available in the management company. However, the REIT Code requires the management company to ensure that it exercises care and due diligence in its selection and engagement of delegates, and that it only appoints delegates who are sufficiently qualified to perform the activities contracted out. The management company is also required to have appropriate procedures and monitoring arrangements in place to supervise the activities of its delegates on a continuous basis. The legal relationship between the management company and a delegate shall be unambiguous, and the delegation contracts should clearly set out the duties of the delegate. No management function shall be delegated unless the management company is able to properly monitor and ensure proper performance by the delegate. Notwithstanding that certain functions can be delegated to a third party, the management company retains full responsibility for the management of the REIT.

	Question	Answer
18.	How many responsible officers should a REIT manager have?	Under section 125(1)(b) of the Securities and Futures Ordinance (the "SFO"), a REIT manager shall maintain at least two responsible officers, failing which the REIT manager shall not carry on the regulated activity for which it is licensed. To alleviate the risk of the number of responsible officers falling below the statutory minimum requirement, a REIT manager is generally expected to have at least three responsible officers at all times. In the event the number of responsible officers shall fall below three, the REIT manager should notify the SFC as soon as reasonably practicable and update the SFC of the succession plan. The REIT manager should also use its best endeavours to restore the number of responsible officers to at least three as soon as reasonably practicable.
19.	Are SFC-authorised REITs required to comply with the Corporate Governance Code in Appendix C1 to the Listing Rules ("CG Code")?	In view of the obligation to adhere to and uphold good corporate governance principles and best industry standards under General Principle 6 of the REIT Code for all activities and transactions conducted in relation to a REIT and matters arising out of its listing or trading on the Exchange, REIT managers are generally expected to comply with the corporate governance practices and disclosure requirements under the Listing Rules (including the CG Code and relevant requirements in Chapter 13 of the Listing Rules) where applicable, with necessary changes or modifications in the context of a REIT. For example, REIT managers should comply with those requirements in relation to their independent non-executive directors who have served more than nine years, gender diversity, disclosure of directors' attendance at general meetings, etc.
20.	Is the management company of a REIT allowed to own units of the REIT it manages?	Yes. However, the management company must disclose its interests in the REIT in the offering documents and annual reports of the REIT. Where the management company receives units as remuneration for services rendered, the requirements under 12.2 and 12.6 of the REIT Code should be observed and the mechanism for such payment of services must be fair and objective and clearly disclosed to investors.

	Question	Answer
Valuation		
21.	Where a REIT is to acquire new properties, whether a valuation report on the existing properties held by the REIT has to be produced and be included in the relevant circular?	In general, the REIT Code does not require a valuation report on the existing portfolio of the REIT to be produced each time a REIT is to acquire a new property. 6.2 of the REIT Code only requires the Principal Valuer to produce a valuation on real estate to be acquired or sold by the REIT.
Investment and Borrowing Limitations		
	Property Development and Related Activities	
22.	What are the key matters that a management company should consider before deciding to undertake or invest any in Property Development and Related Activities pursuant to 7.2A of the REIT Code?	In addition to the requirements as set out under 7.2A of the REIT Code, the management company would be expected to carefully assess and put in place an effective internal risk controls and monitoring system to ensure that the relevant risks associated with such Property Development and Related Activities such as construction risks, risk of default of the construction project counterparties and risk of rising financing costs due to possible delay in completion or changing market environment are properly managed in the best interests of the REIT and its investors as a whole. In this connection, the management company should also consider how to reasonably mitigate and contain these risks by: (a) ensuring that construction contracts are entered into on an arm's length basis, on normal commercial terms and contain adequate risks ring-fencing measures in line with best industry practices, for example, appropriate payment and indemnity terms such as fixed sum contract, payment by stages, sufficient indemnity against wrongful time delays, etc.; (b) conducting proper due diligence to ensure all relevant government and regulatory approvals required for the Property Development and Related Activities have been obtained and all applicable laws and regulations are complied with; (c) ensuring the REIT has sufficient resources to finance the Property Development and Related Activities having regard to the limitations on borrowing under the REIT Code and any exigencies that may arise in the course of construction; and

	Question	Answer
		(d) ensuring it has competent and adequate staff with sufficient and appropriate skills, resources and expertise in place, either as part of its in-house skills or by way of outsourcing to a competent external party (e.g. engaging a reputable, suitably qualified and financially sound developer or contractor to undertake the development or construction activities) under its oversight, to manage the Property Development and Related Activities.
23.	When would an acquisition of vacant land be considered as "part-and-parcel" to the property development project for the purposes of the REIT Code?	In determining whether an acquisition of vacant land is "part-and-parcel" of a property development project, factors such as whether the land can be readily used for the property development project to be undertaken pursuant to 7.2A of the REIT Code and whether additional approvals (e.g. in relation to zoning and planning, government lease conditions, etc.) have to be obtained from relevant government and authorities for commencing the property development project would generally be considered. REIT managers are encouraged to consult the Investment Products Division at an early stage.
24.	For the purpose of calculating the Property Development Cap under 7.2A of the REIT Code, how should the denominator (i.e. the gross asset value (GAV) of the REIT) be determined?	The denominator used in the Property Development Cap calculation should be calculated by reference to the latest published accounts of the REIT as adjusted for any distribution declared and published valuation in a manner similar to determination of the total assets figure in the context of notifiable transactions under the Exchange's Listing Rules, with necessary changes.
25.	Who will be considered as independent experts acceptable to the SFC to provide opinion in support of the calculation of the Property Development Costs?	The SFC would generally be prepared to accept an opinion prepared by the principal valuer of the REIT or other experts whose key personnel are members of the Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors (Hong Kong Branch). The SFC would also accept other professional experts provided that they are able to demonstrate to the SFC that they have the relevant competence and expertise to give the opinion.
26.	What would Property Development Costs under Chapter 7 of the REIT Code include?	Property Development Costs refer to the total project costs borne and to be borne by the REIT in relation to the property development project, inclusive of all costs associated with such project. These costs would include, where applicable, the costs for the acquisition of land, development or construction costs, financing costs, stamp duty and professional fees. The REIT manager is expected to include a prudent buffer in line with best industry standards and

	Question	Answer
		practice to cater for cost overruns that may arise during the course of development. Where the Property Development and Related Activities are conducted overseas, REIT Managers should also take into account any currency impact in the calculation. The above are merely examples of Property Development Costs and are not meant to be exhaustive.
27.	What should be disclosed in the announcements and periodic updates in the interim and annual report of the REIT in relation to the Property Development and Related Activities?	Under the REIT Code, REIT Managers have a general duty to keep unitholders informed of any material information pertaining to the REIT in a timely and transparent manner and to keep unitholders appraised of the position of the REIT. In this connection, REIT Managers are generally expected to issue an announcement to inform unitholders upon the REIT entering into a contract for the Property Development and Related Activities, including a summary of the key terms and conditions, the Property Development Costs and the risks involved. REIT Managers shall also provide periodic updates to investors about the status of the Property Development and Related Activities in the interim and annual reports. REIT Managers shall ensure that all material information concerning these Property Development and Related Activities (such as the development progress, costs incurred and the extent to which the Property Development Cap has been applied etc.) is set out in such updates. REIT Managers should also note their general disclosure obligation under 10.3 of the REIT Code.
	Minority-owned Properties	
28.	Is a majority owner's "drag" option to force the disposal or sale of the minority investment held by a REIT regarded as a limitation on the REIT's freedom to dispose of the investment, thereby disqualifying the investment as a Qualified Minority-owned Property?	In general, a majority owner's contractual "drag" rights would not be considered inconsistent with the REIT's freedom to dispose of its minority investment and would not by itself make the investment a Non-qualified Minority-owned Property. Nevertheless, the REIT manager should make proper disclosures to inform investors about the existence of the "drag" option, its implications for the REIT and other relevant information.

	Question	Answer
29.	How do the announcement requirements under the REIT Code apply to transactions by a joint venture entity in which the REIT holds a minority interest?	The announcement, circular, unitholders' approval, disclosure and reporting requirements under Chapters 8 and 10 of the REIT Code should not generally be applicable to acquisitions or disposals of properties undertaken by a joint venture entity in which the REIT holds a minority interest subject to the REIT manager's general disclosure obligation under Chapter 10 of the REIT Code.
30.	Are the veto rights over key matters listed in 7.7C(h)(ii) of the REIT Code the minimum requirements with which an investment in Minority-owned Property must comply in order to be qualified as Qualified Minority-owned Property?	The veto rights requirement aims to ensure that REIT managers can maintain autonomy and influence over matters relating to Qualified Minority-owned Properties. The Commission will take a pragmatic approach to assessing whether a REIT manager has veto rights over the key matters set out in 7.7C(h)(ii) taking into account the materiality and significance of the relevant matters.
31.	How would the requirement for disclosure of information in annual/interim reports under Note 2(iv) to 7.7C of the REIT Code apply to Qualified Minority-owned Properties?	Such requirement would only apply where the percentage ratio of any of the size tests (ie, asset test, profits test, revenue test, consideration test and equity capital test) of the joint venture entity holding the Qualified Minority-owned Property or Properties is 5% or more. Where the percentage ratio of all size tests for the investment in the joint venture entity holding the Qualified Minority-owned Property or Properties is less than 5%, the disclosure should be made in accordance of the accounting standards set out in Appendix C to the REIT Code. For example, disclosure of key financial information may be required if the relevant investment is material.
	Relevant Investments and Gearing Limit	
32.	How should the value of the Relevant Investments be calculated for the purposes of 7.2B of the REIT Code?	The management company should ensure that all Relevant Investments invested by the REIT are independently and fairly valued on a regular basis in accordance with the REIT's constitutive documents, in consultation with the trustee. In particular, valuation of the Relevant Investments should be made in accordance with requisite accounting standards as well as best industry standards and practice. For example, there should be daily marked-to-market valuation wherever practicable.

	Question	Answer
33.	What do the terms “securities”, “unlisted debt securities”, “government and other public securities”, “property funds”, “other internationally recognized stock exchanges” and “any single group of companies” refer to for the purpose of 7.2B of the REIT Code?	The definitions of the Relevant Investments should generally be understood in the context of the SFO where applicable (such as “securities”, “debt securities”, “group of companies”), and would otherwise bear the meanings by which they are commonly understood. As regards whether an overseas stock exchange would be regarded an “internationally recognized stock exchange” for the purposes of 7.2B of the REIT Code, the SFC generally expects the management company to exercise professional judgment in its assessment in consultation with the trustee. In making such assessment, the management company should assess whether the relevant overseas stock exchange is of a similar standing to that of Hong Kong. REIT managers may consult the Investment Products Division if in doubt.
34.	Whether perpetual bonds issued by REITs may be regarded as equity and not borrowings for the purposes of determining the gearing limit under 7.9 of the REIT Code?	Perpetual bonds may be accounted for as equity or financial liability under the accounting standards depending on their terms and features. Having regard to the following factors: (i) REITs’ relatively low risk and income-generating nature, (ii) the importance to observe the gearing limit under 7.9 of the REIT Code in substance, (iii) the distribution policy requirement for REITs under 7.12 of the REIT Code, and (iv) the accounting principles to the categorization of perpetual bonds, the following requirements are generally expected to be satisfied for perpetual bonds issued by REITs to be regarded as equity and not borrowings for the purposes of the gearing limit: • the bonds must have a perpetual term; • the bond can be accounted for as equity and not financial liability pursuant to the applicable accounting standard to the REIT as confirmed by the auditor of the REIT; • the total amount of coupon and any other payments payable on discretion or otherwise (except repayment of principal) per financial year of the REIT under all perpetual bonds issued by the REIT shall not exceed 10% (“Coupon Cap”) of the REIT’s audited annual net income after tax; • there are no terms or features or other arrangements regarding the bond that will: (i) restrict the REIT’s ability to pay distributions to unitholders where bondholders are not paid; (ii) result in cumulative distributions being payable on the bond;

	Question	Answer
		(iii) have the effect of incentivizing the REIT to redeem its units (e.g. step-up in interest rates); • redemption of the bonds is at the sole discretion of the REIT; • the securities are deeply subordinated in the event of liquidation; and • trustee's consent is obtained. In calculating the Coupon Cap and demonstrating compliance, the REIT Manager must exercise prudence in determining the total issue size of perpetual bonds. Calculation should also be made on the basis that the coupon payment will not be accounted for as interest expense or other expense of the REIT. Should a REIT proceed to redeem the perpetual bonds issued, the REIT manager must confirm that: • the redemption would not result in material adverse impact on the REIT and not affect compliance with the gearing limit under the REIT Code; and • trustee's consent has been obtained. An announcement must be made by the REIT upon issuance and upon redemption of perpetual bonds. The announcement must be submitted to the SFC for pre-vetting. REIT managers are further reminded that an issuance of perpetual bonds to connected persons will be subject to the connected party transaction requirements under the REIT Code. REIT managers should consult the Investment Products Division at the earliest opportunity if their REITs would like to issue any perpetual bonds.

	Question	Answer
35.	Should hybrid securities (e.g. the convertible bonds and perpetual bonds) be counted as debt or equity under the REIT Code in determining the borrowing limit?	Hybrid securities should be accounted for as equity or financial liability as appropriate in accordance with the applicable accounting standards depending on their terms and features.
36.	Does a "see-through" approach apply in calculating the 50% gearing limit under 7.9 of the REIT Code and the 10% limit on single group of companies exposure for Relevant Investments under 7.2B of the REIT Code when a REIT is investing through, for example, a property fund or the securities of another company ("Invested Entity")?	Management companies are expected to calculate the gearing limit under 7.9 of the REIT Code in accordance with requisite accounting standards with reference to the latest published consolidated accounts of the REIT (as adjusted for any distribution declared and relevant acquisitions and disposals post reporting), including determining whether a "see-through" approach is required. The borrowings of the REIT and its subsidiaries should be aggregated for the purpose of calculating borrowing limits and the SFC has the power to require a REIT to aggregate particular liabilities for the purpose of calculating its aggregate borrowing limit. The management company should consult the SFC if it is in any doubt as to the application of the requirements. The SFC does not in general expect that a "see-through" approach would be required for the 10% limit on single group of companies exposure in normal circumstances given that any investment made by a REIT in the Relevant Investments pursuant to 7.2B of the REIT Code should be in the nature of an ancillary investment. Given the nature of a REIT as a vehicle which invest primarily in real estate that generates recurrent rental income, it is not expected that a REIT would have a substantial ownership interest in or exposure to any Invested Entity which may not be compatible with the requirements in the REIT Code and the nature of a REIT. In case where a REIT intends to acquire a substantial interest in any Invested Entity (e.g. an interest of over 10%), the REIT manager should consult the SFC at the earliest opportunity.

	Question	Answer
	General	
37.	Are there restrictions as to the types or geographical locations of properties that a REIT can invest in? Can a REIT invest in infrastructure properties?	A REIT authorized by the SFC may invest in properties whether they are located in Hong Kong or abroad. There is no restriction on the type or geographical locations of properties that it may invest in, except that investments in hotels, serviced apartments and recreational parks have to be held through majority owned SPVs (special purpose vehicles) or joint venture entities. The key regulatory focus is on a REIT's ability to generate recurrent income or fee streams. Although currently Hong Kong REITs mainly invest in offices, shopping malls and hotels, the SFC welcomes REITs investing in other asset types (such as logistics, data centres, hospitals and infrastructure properties) to seek a listing in Hong Kong to broaden investors' choice of products. A Hong Kong REIT may invest in infrastructure properties, such as highways, bridges, tunnels, power plants and telecommunication towers, if the key requirements in the REIT Code are complied with in substance. These include that the properties can generate recurrent income or fee streams; the REIT has legal and proper right, concession or mandate to operate the properties or projects; and the REIT manager has the necessary experience, technical expertise and resources to manage them. It should also be noted that the aggregate investments in uncompleted units in a building together with the Property Development Costs referred in 7.2A of the REIT Code are limited to 10% of the gross asset value of a REIT. This cap may be increased to not more than 25% of the gross asset value of the REIT at any time provided that the conditions in 7.2AA of the REIT Code are satisfied. Further, a REIT may not invest in vacant land unless the management company can demonstrate that such investment is part-and-parcel of the property development which may be undertaken pursuant to 7.2A of the REIT Code and within the investment objective or policy of the REIT. REITs and potential applicants are encouraged to consult the Investment Products Division at an early stage.

	Question	Answer
38.	Can investment in other listed REITs and property-related asset-backed securities ("ABS") be counted as Qualified Minority-owned Properties, adopting the substance over form approach?	Investments in other listed real estate investment trust or property-related ABS as Qualified Minority-owned Properties would have to be considered on a case-by-case basis having regard to factors such as the target's structure, underlying investments and whether it is subject to a regulatory regime comparable to that for Hong Kong REITs. In general, where the regulatory regime governing the target real estate investment trust is substantially similar to that in Hong Kong, such investments may be regarded as Qualified Minority-owned Properties and may not be required to strictly comply with all requirements in the REIT Code. For example, strict compliance with valuation requirements may not be required in the case of investments in other listed real estate investment trusts. In particular, this would be the case where the other real estate investment trust is listed and traded on an internationally recognised stock exchange and its financial reports are prepared in accordance with comparable accounting standards. Similarly, a substance-over-form approach would also be adopted in the case of property-related ABS. The SFC will review each case holistically and REIT managers are encouraged to consult the SFC at an early stage on any such proposal.
39.	What may be regarded as "financial instruments for genuine hedging purposes" under Note (2) to 7.2C of the REIT Code?	For the purpose of Note (2) to 7.2C of the REIT Code, financial instruments to the extent used for genuine hedging purposes in connection with the ordinary course of business of a REIT and not with the aim of yield enhancement are generally regarded as financial instruments for genuine hedging purposes. These may include, for example, plain vanilla hedging instruments in the nature of treasury tools for REITs to manage interest rate and currency exposures.
40.	What should a management company do if there is any breach of the investment caps?	Where an investment cap is exceeded, the management company should inform the SFC in writing immediately and issue an announcement to inform investors as soon as reasonably practicable. The management company shall provide to the SFC and unitholders information on the magnitude of and reasons for the breach and the proposed rectification plan, including the proposed period for rectification. While the REIT may not be required to dispose of such investments if the disposal is prejudicial to the interests of the unitholders, the management company shall take all reasonable steps and measures to rectify the breach as soon as reasonably practicable, depending on the nature and circumstances of the breach on a case-by-case basis taking due

	Question	Answer
		account of the interests of unitholders. The management company should inform the SFC and unitholders as to the progress of the rectification in the annual and semi-annual reports of the REIT. Management companies should note that breaches of the REIT Code may cause the SFC to consider whether such failure adversely reflects on the person's fitness and properness and the suitability of the REIT to remain authorized.
41.	Is it necessary for the trust deed to be amended before a REIT may undertake Property Development and Related Activities and/or invest in Relevant Investments and/or Minority-owned Properties?	Notwithstanding the REIT Code allows a REIT to undertake Property Development and Related Activities and/or invest in Relevant Investments and/or Minority-owned Properties, it is up to a REIT manager to consider whether or not to make use of the flexibility and determine its investment strategy and policy. Before an existing SFC-authorized REIT may commence to undertake any Property Development and Related Activities and/or invest in Relevant Investments and/or Minority-owned Properties, the management company should first ensure that it is permissible under the investment scope set out in the constitutive documents of the REIT. Amendments to the constitutive documents to effect a change in investment objective/policy of the existing REIT would require the approval of unitholders by way of a special resolution under the REIT Code. Whether and how a REIT should revise its constitutive documents would vary depending on whether, and to what extent, the REIT intends to make use of such flexibilities provided under the REIT Code and the existing provisions of the particular constitutive documents. The management company should carefully consider how the constitutive documents of the REIT should be revised to achieve compliance with the regulatory and legal requirements in consultation with the trustee of the REIT. The management company should also consider seeking legal advice where appropriate. Under 7.2AA of the REIT Code, the Property Development Cap may be increased to not more than 25% of the gross asset value of the REIT provided that holders have given their consent to such increase by way of resolution at a general meeting and other conditions in 7.2AA of the REIT Code are satisfied. Whether an ordinary resolution or a special resolution is required to give effect to the increase will depend on the terms of the constitutive documents. In general, unless amendments to a REIT's constitutive documents are required or a special

	Question	Answer
		resolution is specifically provided for under a REIT's constitutive documents, an increase of the Property Development Cap may be approved by way of an ordinary resolution.
Transactions with Connected Persons		
42.	What transactions between the trustee's banking group and the REIT's group will not be regarded as connected party transactions of the REIT for the purposes of 8.17 of the REIT Code?	The following transactions with the trustee's banking group will not generally be regarded as connected party transactions of the REIT for the purposes of 8.17 of this Code: (a) where a member of the trustee's banking group acts for a third party as nominee, custodian, agent or trustee and conducts "agency transactions" with the REIT's group; (b) where a collective investment scheme (including another REIT) transacts with the REIT's group, and a member of the trustee's banking group acts as the REIT manager or trustee of such collective investment scheme but the transaction is not a proprietary transaction of the trustee's banking group; and (c) where a member of the trustee's banking group (other than the trustee and its proprietary subsidiaries except where the trustee or any of its proprietary subsidiaries is the trustee of another collective investment scheme and is acting in that capacity) acquires, purchases, subscribes, sells or disposes of units of the REIT on terms which are the same as available to the public or other unitholders of the REIT as a whole, and where applicable, are subject to the application and allocation rules set out in the Listing Rules. For the avoidance of doubt, any dealing by the trustee's banking group in units of the REIT on the Hong Kong Stock Exchange will not be regarded as a connected party transaction.
43.	What are "ordinary banking and financial services" under 8.18(a) of the REIT Code?	"Ordinary banking and financial services" generally means: (a) deposits and other ''banking business'' (as defined in the Banking Ordinance) with a member of the trustee's banking group which is a ''licensed corporation'' or ''registered institution'' (as defined in the SFO) or overseas equivalent (together ''Trustee's Banking Group Intermediaries'') and conducted on arm's length commercial terms;

	Question	Answer
		(b) loans extended by a Trustee's Banking Group Intermediary being a transaction in the ordinary and usual course of business of the REIT's group and provided to, or arranged for, the REIT's group on arm's length commercial terms; and (c) related financial services constituting ''regulated activities'' (as defined in the SFO) and other banking or financial services required in the ordinary and usual course of business by the REIT's group (including insurance, Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) retirement benefit schemes, mandatory provident fund schemes, credit cards, asset management, financial instruments arrangements for genuine hedging purposes (as defined in FAQ39) and other such services). For the avoidance of doubt, ''ordinary banking and financial services'' does not include ''corporate finance transactions'' discussed in FAQ44.
44.	What are "corporate finance transactions" under 8.18(b) of the REIT Code?	"Corporate finance transactions" generally means: (a) underwriting, securitisation, issue of debt instruments or other securities, or other related arrangements where the trustee's banking group is involved in an underwriting or arranging capacity or acts as financial advisor and/or bookrunner and/or listing agent and/or global co-ordinator to the REIT, provided that these transactions are carried out at arm's length on normal commercial terms, the primary objective of which is the offering or distribution of securities to parties outside of the trustee's banking group; (b) lending and borrowing of funds or other related arrangements (including interest rate swap arrangements in relation to such borrowings) in connection with any financing agreement by which the REIT's group will finance the acquisition of real estate; and (c) "corporate advisory transactions", namely the provision of corporate finance advice to the REIT's group and excludes transactions set out in categories (a) and (b) above, provided that the aggregate fees that the trustee's banking group derived from all corporate advisory transactions conducted for the REIT's group during a financial year shall be capped at 1% (or such other percentage as may be considered appropriate by the Commission) of the latest published net asset value of the REIT.

	Question	Answer
		"Corporate finance advice" means advice concerning: (I) compliance with or in respect of the REIT Code, the Listing Rules, the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and/or The Codes on Takeovers and Mergers and Share Buy-backs; (II) (i) any offer to dispose of securities to the public, (ii) any offer to acquire securities from the public or (iii) acceptance of any offer referred to in (i) or (ii), but only in so far as the advice is generally given to unitholders of securities or a class or securities; or (III) corporate restructuring in respect of securities (including the issue, cancellation or variation of any rights attaching to any securities)
45.	Which leasing or licensing transactions may rely on the exemption under 8.18(c) of the REIT Code?	Leasing or licensing transactions entered into with the REIT's group where the lessee or licensee is a member of the trustee's banking group or a director or chief executive of the trustee may rely on the exemption under 8.18(c) of the REIT Code provided that: (a) the grant of the lease or licence shall be negotiated and determined by the REIT manager and/or the REIT manager's delegate on behalf of the REIT's group, and (b) an independent valuation is conducted for each of the leasing or licensing transactions except where they are conducted on standard or published rates.
46.	What are the safeguards, controls and other conditions the REIT manager is expected to put in place or comply in order to be able to rely on the exemption and/or modification under 8.18?	When relying on the exemption and/or modification in respect of certain transactions (the "Trustee Continuing CPTs") with the trustee's banking group, or (where applicable) a director or chief executive of the trustee, as set out in 8.18 of the REIT Code, the REIT manager and trustee are expected to comply with the following on an ongoing basis: *Compliance with 8.7 of the REIT Code*

	Question	Answer
		(a) The Trustee Continuing CPTs should comply with 8.7 of the REIT Code (including they will be carried out at arm's length, on normal commercial terms and in the best interests of holders). *Sufficient safeguards to ensure the independence of the trustee* (b) It is generally expected that safeguards for the trustee's independence should include: (i) each of the trustee and the trustee's banking group should act independently of one another in their dealings with the REIT; (ii) the trustee will not be involved in the making of any decisions on behalf of the REIT to enter into any Trustee Continuing CPTs, subject only to the trustee's duties of oversight under the REIT Code and the trust deed; (iii) the REIT manager is satisfied with the trustee's internal controls and compliance procedures, such as implementing Chinese walls, to ensure that the operation of the trustee is independent of other banking, financial services and other business functions and operations of the trustee's banking group; and (iv) there are provisions in the constitutive documents of the REIT that require the trustee to take action or commence proceedings on behalf of the REIT, as the REIT manager deems necessary to protect the interest of unitholders, including against the connected persons of the trustee or the trustee's banking group in relation to any transaction or agreement entered into by the trustee for and on behalf of the REIT with such connected persons of the trustee or members of the trustee's banking group and require that in the event of any action against such persons, the trustee shall act upon the REIT manager's request and instructions. *Adequate internal controls to ensure compliance with the REIT Code* (c) It is generally expected that the internal controls should include:

	Question	Answer
		(i) the REIT manager must implement adequate internal controls, compliance procedures and corporate governance policies to ensure that the Trustee Continuing CPTs are monitored and undertaken on terms in compliance with the REIT Code; and (ii) the REIT manager must demonstrate to the audit committee and the independent non-executive directors of the REIT manager that the Trustee Continuing CPTs satisfy all applicable requirements, which may entail (where practicable) obtaining quotations from parties unrelated to the trustee. For example, for non-daily "corporate finance transactions", there should be procedures to ensure (a) competitive "best pricing" (having regard to the nature of the services being sought and market conditions); and (b) the trustee should not be involved in the selection of the parties to the transactions. Further, all connected party transactions are to be reviewed and approved by the independent non-executive directors of the REIT manager to ensure that they are conducted in the best interests of unitholders as a whole. *Proper disclosure and confirmations* (d) Proper disclosure should be made in accordance with Note (4) to 8.18 of the REIT Code and the SFC may require confirmation from the REIT manager and the trustee in support. The REIT manager should consult the Commission at an early stage if the REIT intends to rely on any of the exemptions and/or modifications under 8.18 of the REIT Code. The exemption and/or modification under 8.18 of the REIT Code only apply to connected party transactions involving the connected persons of the trustee solely as a result of and for so long as the trustee is in office as the trustee for the REIT. If connected party transactions arise as a result of other circumstances, these will be governed by Chapter 8 of the REIT Code. If there is any subsequent material change of circumstances relating to the relevant transactions, the Commission should be notified and consulted.

	Question	Answer
47.	What would be the modified disclosure and reporting requirements with respect to ordinary banking and financial services with trustee's banking group provided that they can satisfy the conditions set out in 8.18 of the REIT Code?	In general, ordinary banking and financial services with trustee's banking group will not be subject to any requirements for announcement or unitholders' approval under Chapter 8, and the disclosure and reporting requirements under Chapter 8 with respect to such transactions may be modified as described below: (a) A summary disclosure of all such transactions provided by the trustee's banking group to the REIT's group in each financial year shall be disclosed in the relevant annual report of the REIT. Such information shall include the nature of the transactions, types of transactions or services and identities of the connected persons of the same transactions. The independent non-executive directors of the REIT manager shall confirm in the annual report that they have reviewed the terms of all such transactions and are satisfied that these transactions have been entered into: (i) in the ordinary and usual course of business of the REIT; (ii) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the REIT than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of unitholders as a whole; and (b) The auditors of the REIT shall be engaged to perform certain agreed-upon review procedures and report in the auditors' report to the REIT manager in respect of the REIT (and a copy of such report shall be provided to the Commission), confirming that all such transactions: (i) have followed the REIT manager's internal procedures for such transactions and are in accordance with the terms disclosed in the offering document; (ii) have received the approval of the board of the REIT manager (including all the independent non-executive directors); (iii) are in accordance with the pricing policies of the REIT; and (iv) have been entered into and carried out in accordance with the terms of the agreements governing the transactions.
48.	What would be the modified disclosure and reporting	In general, corporate finance transactions with trustee's banking group will not be subject to any requirements for announcement or unitholders' approval under Chapter 8, and the

	Question	Answer
	requirements with respect to corporate finance transactions with trustee's banking group provided that they can satisfy the conditions set out in 8.18 of the REIT Code?	disclosure and reporting requirements under Chapter 8 with respect to such transactions may be modified as described below: (a) the offering document and any circular issued by the REIT in respect of such corporate finance transactions shall include upfront disclosure of this exemption and, with respect to those corporate finance transactions under categories (a) and (b) of FAQ44, full disclosure of the material terms of the relevant agreements; (b) the annual report of the REIT shall include disclosure of the aggregate fees paid to the trustee's banking group in respect of all the corporate finance transactions conducted for the REIT's group in the relevant financial year; (c) in respect of any corporate finance transaction conducted by the trustee's banking group whose fees, payable by the REIT's group, exceed HK$1 million, the relevant annual report of the REIT shall include disclosure of: (i) the occurrence and nature of the transaction; (ii) the parties to the transaction; and (iii) the date of the transaction; (d) the annual report of the REIT shall disclose a statement made by each of the REIT manager and the trustee to confirm that the corporate finance transactions under categories (a), (b) and (c) of FAQ44 have been conducted in compliance with the conditions for Trustee Continuing CPTs under FAQ46, and that the trustee has not been involved in the making of any decision to enter into any corporate finance transaction on behalf of the REIT (subject to the trustee's duties of oversight under the REIT Code and the trust deed) including the selection of the financial advisor for such transaction; and (e) the annual report of the REIT shall include a confirmation by the independent non-executive directors of the REIT manager that they have reviewed the terms of such transactions and are satisfied that they have been entered into: (i) in the ordinary and usual course of business of the REIT; (ii) on normal commercial terms (to extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the REIT than terms available to or from (as appropriate) independent third parties; and

	Question	Answer
		(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of unitholders as a whole; and (f) the auditors' report shall cover all the relevant corporate finance transactions. *Note: For example, it is generally expected that the auditors of the REIT shall report to the REIT manager confirming that:* *(i) the transactions were duly approved by the board of directors of the REIT manager in accordance with the internal procedures of the REIT manager;* *(ii) the transactions were entered into in accordance with the terms of the agreements governing the transactions; and* *(iii) the aggregate fees of the trustee's banking group generated from all corporate advisory transactions between the trustee's banking group and the REIT conducted during the relevant financial year do not exceed the cap.* Notwithstanding the above, in the case where the aggregate fees that the trustee's banking group generates from all "corporate advisory transactions" under FAQ44 conducted for the REIT's group during the relevant financial year exceed 1% (or such other percentage as may be considered appropriate by the Commission) of the latest net asset value of the REIT as disclosed in the latest published audited accounts, the requirements in respect of connected party transactions as set out in Chapter 8 of the REIT Code shall apply. For the avoidance of doubt, where by virtue of the nature of the transaction, other than the involvement of the trustee's banking group in its capacity as described above under "corporate finance transactions", an announcement shall be made as required under the REIT Code (and is not exempted by any waivers from announcements under the REIT Code granted by the Commission), such announcement shall disclose the role of the trustee's banking group and the relevant terms of engagement in accordance with the relevant provisions of the REIT Code.
49.	What would be the modified disclosure and reporting	In general, leasing or licensing transactions entered into with the REIT's group where the lessee or licensee is a member of the trustee's banking group or a director or chief executive

	Question	Answer
	requirements with respect to leasing or licensing transactions with trustee's banking group or a director or chief executive of the trustee provided that they can satisfy the conditions set out in 8.18 of the REIT Code?	of the trustee will not be subject to any requirements for announcement or unitholders' approval under Chapter 8 of the REIT Code, and the disclosure and reporting requirements under Chapter 8 of the REIT Code with respect to such leasing or licensing transactions may be modified as described below: (a) the aggregate amount of annual rent and licence fee paid by the trustee's banking group or a director or chief executive of the trustee to the REIT's group during a financial year, together with the material terms of any lease or licence with any member of the trustee's banking group under which the annual rent (per lease) or annual licence fee (per licence) exceeds HK$1 million (or such other threshold as may be considered appropriate by the Commission), is disclosed in the annual report of the REIT; (b) the annual report of the REIT shall include a confirmation by the independent non-executive directors of the REIT manager that they have reviewed the terms of such transactions and that they are satisfied that they have been entered into: (i) in the ordinary and usual course of business of the REIT; (ii) on normal commercial terms (to extent that there are sufficient comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the REIT than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreement and the REIT manager's internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of the unitholders as a whole; and (c) the auditors' report shall cover all the relevant leasing or licensing transactions.
50.	What is the transitional arrangement for connected party transaction related amendments to the REIT Code that took effect on 4 December 2020?	A transitional period of six months will be allowed for existing REITs to comply with the revised connected party transactions requirements in relation to transactions entered into before the effective date of the revised REIT Code. For these transactions, REITs shall comply with the requirements for connected party transactions applicable at the time the agreements were entered into.

	Question	Answer
		For existing continuing connected party transactions, the REIT may, with a proper announcement to unitholders, make use of the exemption for reporting or annual review requirements (if applicable) under the revised REIT Code. All existing waivers shall continue to apply until expiry according to their terms or they are otherwise modified or revoked. REIT managers should consult the SFC at an early stage where additional connected persons are identified and exemptions are not available under the revised REIT Code.
Ongoing Requirements		
51.	Once a REIT is authorized by the SFC, is it required to comply with any ongoing requirements?	The management company of an SFC-authorized REIT has an obligation to inform holders, in a timely and transparent manner, of any material information regarding the REIT. The management company shall inform holders by way of announcement as soon as reasonably practicable of any information or transaction concerning the scheme which: (a) is necessary to enable holders to appraise the position of the scheme; or (b) is necessary to avoid a false market in the units of the scheme; or (c) might be reasonably expected to materially affect market activity in the scheme or affect the price of the units of the scheme, or (d) requires holders' approval. In considering whether an announcement has to be made, reference should generally be made to requirements applicable to listed companies under the Listing Rules (modified as appropriate pursuant to 2.26 of the REIT Code) and the Guidelines on Disclosure of Inside Information issued by the Commission to the extent appropriate and practicable except as otherwise provided in the REIT Code or the guidelines issued by the Commission from time to time. Accordingly, it is generally expected that the transactions and financing arrangements contemplated under Chapter 13 of the Listing Rules, such as pledging of units by controlling unitholder or breach of loan agreement by the scheme should be announced. The management company should also observe and comply with on-going disclosure and reporting requirements such as annual, semi-annual or financial reports.

	Question	Answer
52.	Is a REIT required to issue an announcement under Chapter 10 of the REIT Code each time it makes an acquisition of property?	*Disclosure requirement* The REIT manager is subject to the general disclosure obligation under 10.3 and 10.4 of the REIT Code. In particular, given the nature of a REIT as a vehicle which invests primarily in real estate, a REIT is required to issue an announcement under 10.4(ga) of the REIT Code each time it proposes to acquire or dispose of real estate (including any Minority-owned Property) (unless the size of which is less than 1% of the gross asset value of the scheme) to keep unitholders informed as soon as reasonably practicable (the "Disclosure Requirement"). REIT managers should strictly comply with such Disclosure Requirement in respect of all acquisitions of properties made by a REIT save in the exceptional case of a unification of property ownership acquisition where the Disclosure Requirement may be discharged as set out below. *Unification of property ownership acquisitions* (i) It is noted that there are situations where a REIT has already owned a majority interest by undivided shares in a property and the REIT may wish to make a series of acquisitions ("Acquisitions") of the remaining strata-titled units ("Units") in the same property from their respective owners with a view to unifying the ownership of the property ("Property"). (ii) It has been submitted that unification of ownership of the Property would very often be in the interests of unitholders as it is expected to enhance the capital value and the overall internal rate of return of the Property. Such unification of ownership could provide the REIT manager with greater autonomy and flexibility in terms of usage and asset enhancement and it is expected that the REIT will be able to achieve better economies of scale on operating synergies (such as in terms of satisfying tenants' requirements and sharing of property management resources). In additional, it is also expected that the value of the Property through en-bloc sale will be enhanced (as compared with the value where certain strata-titled units in the Property remain to be owned by other third parties). (iii) However, it has been submitted that with strict compliance with the Disclosure Requirement, the chances of success in unifying the ownership of the Property through acquiring all the remaining Units of the Property will likely be prejudiced or at least become more uncertain. In particular, it is likely that the REIT may have to offer a higher purchase price to the third-party owners of these remaining Units in order to be able to

	Question	Answer
		successfully acquire those Units, especially when the percentage ownership of the Property by the REIT has further increased. (iv) In view of the unique nature of such Acquisitions to be undertaken by a REIT with a view to unifying ownership of the Property and their potential benefits to a REIT, the Disclosure Requirement may be discharged by way of an announcement issued as soon as reasonably practicable at the completion of the series of intended Acquisitions provided that: (a) each Acquisition is not a connected party transaction as defined under the REIT Code; (b) in the REIT manager's reasonable opinion taking into account all relevant factors including the size of each Acquisition and the aggregate size of all the Acquisitions, the Acquisitions are (i) immaterial; (ii) not price sensitive in nature; and (iii) not otherwise disclosable under any other limbs in 10.3 and 10.4 as well as any other provisions of the REIT Code; (c) it can be demonstrated that, on balance, strict compliance with the Disclosure Requirement would be prejudicial to the interests of the REIT unitholders as a whole; and (d) details of each individual Acquisition shall be disclosed in the REIT's next semi-annual/annual report (as the case may be) in accordance with the REIT Code. (v) For the avoidance of doubt, and notwithstanding paragraph (iv) above, the REIT manager is required to issue an announcement and comply with any other applicable requirements in accordance with Chapter 10 of the REIT Code where the Acquisitions made by the REIT during any 12-month period, on a cumulative basis, amount to a percentage ratio being 5% or more under the Size Tests (accessible via the following link http://www.sfc.hk/web/EN/forms/products/forms.html). REIT managers should consult the Investment Products Division at the earliest opportunity should they wish to proceed with any such Acquisition(s).

	Question	Answer
53.	What are the announcement disclosure requirements for acquisition or disposal of real estate with transaction size that is 1% or more of the gross asset value of the REIT but less than the threshold for discloseable transaction under the Listing Rules (i.e. 5%)?	The announcement is generally expected to include disclosures required for discloseable transactions. Under 10.5 of the REIT Code, the announcement should contain sufficient quantitative information to enable investors to fully understand the nature and ascertain the implications of the announcement.
53A.	Is an accountants' report prepared in accordance with 7.6 of the REIT Code required for circulars for all notifiable or connected party transactions involving a special purpose vehicle?	Under 10.10B and 8.7A of the REIT Code, all notifiable transactions and connected party transactions entered into by a REIT will be regulated with reference to requirements applicable to listed companies under Chapters 14 and 14A of the Listing Rules (modified as appropriate pursuant to 2.26 of the REIT Code) to the extent appropriate and practicable, including but not limited to content requirements applicable to the announcements and circulars to be issued in relation to notifiable transactions and connected party transactions, respectively. An accountants' report in respect of a special purpose vehicle involved in the transaction is generally not required to be separately prepared under the REIT Code where such report is not otherwise required to be included in the circular to be issued under Chapters 14 and 14A of the Listing Rules (as the case may be) for the subject transaction.
54.	When is trustee's view required to be included in announcements and what are trustees expected to opine on?	In view of the oversight role and fiduciary duties of the trustee, it is generally expected that an announcement of transactional or significant matters should set out the trustee's view on the relevant transaction or subject matter. Transactional matters generally include acquisitions and disposals, notifiable transactions and connected party transactions. Significant matters generally include, for example, those matters under 10.4 (h), (i), (v) (eg, manager's fee), (w) and (x) under the REIT Code.
55.	Are there any documents that need to be submitted to the SFC in respect of announcements/circulars	In relation to transactions announced by a REIT, the completed and signed size tests for the transaction (as available on our website) should be furnished. Separately, for an appointment of a director by the REIT manager, the director's declaration in line with the format set out in the Application Checklist for REITs should be provided. These documents should be provided

	Question	Answer
	that are not subject to pre-vetting by the SFC?	to the relevant case officers at the same time as the filing of the relevant announcements/circulars via e-IP.
56.	What are the disclosure requirements in respect of the composition of distribution made by a REIT?	In order to enhance transparency and investors' understanding of the composition of distributions declared by REITs, all REITs must disclose clearly (a) the extent to which the distribution declared or made by it is composed of, and the types of, income and capital and (b) any amounts deducted (such as taxes in respect of distributions paid/payable to unitholders) pursuant to its trust deed, in all of their results announcements, semi-annual and annual reports. For example, any adjustment made to the distribution amount as a result of the adding back of the amortisation charge of the upfront swap payment to distributable income will normally be regarded as an effective return of capital for this purpose, and the SFC would require disclosure of such amount on a per unit basis as a minimum. Managers should consult the Investment Products Division if they have any query as to the extent of disclosure required.
57.	What should a REIT manager note on giving prior notice to investors regarding dividend distribution made by a REIT to investors?	In line with the obligations under GP6, 10.3 and 10.4(j) of the REIT Code regarding adherence to good corporate governance principles, best industry standards and disclosure requirements respectively, REIT managers should inform investors by way of public announcement information on dividend distribution as soon as practicable. REIT managers are also reminded that they should keep such information strictly confidential before public announcement is made. Furthermore, sufficient time should be allowed for investors to act in light of the information disclosure relating to distribution. As the SFC seeks to regulate REITs with reference to the requirements applicable to listed companies under the Listing Rules generally, a REIT manager should also take into account the relevant requirements in the Listing Rules (eg, Rule 13.66) and prevailing market practices. For example, it is generally expected that a REIT manager should inform investors details of dividend distribution by way of public announcement: (i) at least 10 business days before the record date; and (ii) where there is an alteration of the record date, at least five business days before the announced record date or the new record date, whichever is earlier. Where it is not practicable for a REIT manager to provide the amount of dividend payment 10 business days before the record date, the REIT manager should issue a separate

	Question	Answer
		announcement on the amount of dividend payment at least one business day before the ex-dividend date.
58.	What are the content requirements in respect of interim/annual reports and results announcements of an SFC-authorised REIT?	An SFC-authorised REIT should ensure that its interim/annual reports and results announcements comply with the relevant requirements set out in the REIT Code and the relevant content requirements set out in the Listing Rules (currently contained in Appendix D2 to the Listing Rules) as if those requirements were applicable to REITs. The requirements set out in the REIT Code and the Listing Rules are the minimum content requirements. The Manager should incorporate into the interim/annual reports and results announcements other information it considers necessary for unitholders to appraise the matters relating to the REIT. Further, there should not be any material discrepancies between the information contained in the results announcements and that in the audited results, and the Manager should inform the SFC of such discrepancies at the same time as it notifies the Stock Exchange of Hong Kong Limited. Managers should also notify unitholders of declarations of distribution through the interim/annual reports and results announcements of the REITs for relevant periods. Such notification should include details of the composition of the distribution as discussed in FAQ56 above, and take note of the prior notice requirement as set out in FAQ57 above where appropriate.
59.	7.6 of the REIT Code requires the preparation of an accountants' report in respect of the special purpose vehicles (SPVs) through which a REIT will acquire real estate. To the extent that any of such SPVs owns assets and liabilities (the "Business") and/or companies (including subsidiaries and associates) (the "Companies") that will not be acquired by the REIT, how should the profit and	The REIT Code allows the holding of real estate through one or more SPVs. Where a REIT acquires real estate through the acquisition of more than one SPV, an accountants' report shall be prepared on the top-layer SPV(s) that is (are) directly held by the REIT on a combined or consolidated basis (where applicable) for the purposes of 7.6 of the REIT Code, unless otherwise agreed by the Commission. In the case where any SPV(s) to be acquired by a REIT directly or indirectly own(s) the Business and/or the Companies during the period covered by the accountants' report that will not be acquired by the REIT, the results and assets and liabilities attributable to such Business and/or the Companies shall normally be excluded from the profit/loss and the assets and liabilities of the SPV(s) presented in the accountants' report, as if they had not been in

	Question	Answer
	loss and the assets and liabilities of such SPVs be dealt with in the accountants' report for the purpose of complying with 7.6 of the REIT Code?	existence throughout the period covered by the accountants' report, unless otherwise agreed by the Commission. The accountants' report shall cover the profit and loss of the SPV(s) to be acquired by the REIT in respect of each of the three financial years immediately preceding the transaction and the stub period (where applicable), as well as the assets and liabilities as at the last date of each of the three relevant financial years and the stub period. Further, the profit and loss of the SPV(s) for the comparative stub period shall also be presented in the accountants' report.
60.	Are SFC-authorised REITs required to publish ESG reports in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") in Appendix C2 to the Listing Rules?	As discussed in FAQ58 above, an SFC-authorised REIT should ensure its interim/annual reports and results announcements comply with the relevant content requirements set out in the Listing Rules (currently contained in Appendix D2 to the Listing Rules). Accordingly, similar to listed companies, REIT managers are expected to publish ESG reports at the same time as the publication of the REIT's annual reports as required under Appendix D2 to the Listing Rules in accordance with the ESG Guide (as amended from time to time). The ESG reports shall also include the new climate-related disclosures based on IFRS S2 Climate-related Disclosures as set out in the enhanced ESG Code in Appendix C2 to the Listing Rules, which will come into effect on 1 January 2025.
61.	Does an SFC-authorized REIT need to hold AGMs?	GP6 of the REIT Code stipulates, among other things, that the management company of a REIT shall adhere to and uphold good corporate governance principles and best industry standards for all activities and transactions conducted in relation to the REIT. As the holding of an AGM is very much an established good corporate governance requirement of listed companies in Hong Kong and it being a regular channel of communication with unitholders, the SFC is of the view that the holding of an AGM is part of the good corporate governance principles and standards of the REIT which are expected to be adhered to by SFC-authorized REITs as a matter of policy. Accordingly, the SFC would expect the trust deed of an SFC-authorized REIT to contain provisions in relation to the holding and conduct of AGMs. In respect of the conduct of the AGM, the SFC would expect the agenda of the AGM will cover at least the following: (a) presentation of the audited financial statements together with the auditors' report to unitholders; and (b) appointment of auditors and fixing of auditors' remuneration.

	Question	Answer
Issue and Repurchase of Securities		
62.	Under what circumstances can convertible instruments (such as securities convertible or exchangeable into units or any options or warrants or similar rights for the subscription or issue of units) be issued by a REIT pursuant to the 20% general mandate permitted under 12.2 of the REIT Code? How would 12.2 of the REIT Code be applied in relation to an issue of convertible securities or an agreement to issue units where the units may be issued at a date later than the financial year in which the convertible securities or agreement are/is granted?	In the case of issuance of such convertible instruments by a REIT, the relevant time for calculating whether the general mandate is exceeded should generally be at the time when the REIT enters into a binding agreement or commitment (conditional or otherwise) relating to the proposed issuance of units (e.g. when it enters into an underwriting agreement for the issuance of the convertible instruments). For future calculations of the general mandate, no account may be taken of any units which are or may be issued pursuant to such convertible instruments again to the extent that such units have already been taken into account in the initial or subsequent calculations. This approach is substantially in line with the application of the general mandate requirement for companies listed on the Hong Kong Stock Exchange and consistent with the spirit and regulatory intent of 12.2 of the REIT Code. Accordingly, provided that it is so permitted under the trust deed of the REIT and that the new units are not issued or issuable to a connected person or in relation to a connected party transaction which requires unitholders' approval, a REIT may in any financial year issue or agree to issue (whether directly or pursuant to any convertible instruments or otherwise) units otherwise than on a pro rata basis to all existing holders without the approval of unitholders if "T" referred to in the formula below does not increase the number of units that were outstanding at the end of the previous financial year (or that as at the date of commencement of listing, where the convertible instruments are issued or the agreement is entered into in the first financial year) by more than 20% (or such lower amount as prescribed by the SFC). T = A + B + C where, **A** is the total number of new units issued or agreed to be issued in that financial year*; * *New units issued or agreed to be issued under the following categories may generally be excluded from the calculation of "A":* • *any new units issued or issuable pursuant to any issued convertible instruments to the extent that such units have already been taken into account in the initial calculation at the time of the*

	Question	Answer
		issue of the relevant convertible instruments or taken into account subsequently (e.g. as a result of an unforeseen adjustment not contemplated in the calculation of "C" at the time of issue) • *any new units issued or issuable pursuant to any agreement for the issuance of units to the extent that new units have already been taken into account in the initial calculation at the time of when the relevant agreement was entered into* • *any new units issued or issuable pursuant to any convertible instruments or any agreement for the issuance of units as a result of adjustments arising from the consolidation or sub-division or re-designation of units* • *any new units issued or agreed to be issued in respect of which a special mandate has already been obtained from unitholders* **B** is the maximum number of new units issuable at the initial conversion/issue price pursuant to the any convertible instruments issued or agreed to be issued otherwise than on a pro rata basis to all existing unitholders in that financial year; and **C** is the maximum number of any other new units which may be issuable pursuant to any such convertible instruments as at the time of issue as estimated or determinable by the Manager in good faith and using its best endeavours and confirmed in writing to the Trustee and the SFC under the terms of such convertible instruments (including any additional new units issuable under any adjustment mechanism other than consolidation, sub-division or re-designation of units). If an adjustment mechanism is triggered subsequently (e.g. in the next financial year, FY2) with the unforeseen result that the maximum number of new units issuable under the above paragraph as at the time of such occurrence exceeds C, the additional units issuable shall be taken into account in the calculation of "A" in FY2 (i.e. deducted against the general mandate available for FY2) and an announcement should be made by the Manager as soon as practicable. If the number of additional units so issuable had exceeded the remaining general mandate available for FY2, then special approval of unitholders would be required. In the event of any consolidation, sub-division or re-designation of units during a financial year, the 20% threshold in terms of number of units may be proportionally adjusted to give effect to such consolidation, sub-division or re-designation.

	Question	Answer
		Managers should note that the above is intended to provide some general guidance only and the SFC would consider each case according to its particular circumstances on a case-by-case basis. Managers should consult the Investment Products Division at the earliest opportunity should it wish to proceed with the issue of any convertible instruments under the general mandate permitted under 12.2 of the REIT Code.
63.	What are the major regulatory requirements Managers should note in respect of secondary offerings?	A REIT may raise funds by way of a secondary offering subsequent to its IPO. The following are a few major regulatory requirements Managers should note in this connection. • Any secondary offering must be conducted in accordance with the trust deed and other constitutive documents of the relevant REIT and in compliance with all applicable laws and regulations (including the REIT Code). • If new units are not offered to holders on a pro rata basis, holders' approval by way of an ordinary resolution at a general meeting is required unless the number of new units issued falls within the 20% general mandate prescribed under 12.2 of the REIT Code (see also FAQ62 above). Where new units are issued on a pro rata basis but the issue increases the market capitalisation of the REIT by more than 50%, holders' approval by way of ordinary resolution at a general meeting is also required (see 12.3 of the REIT Code). • Under section 103 of the SFO, an advertisement, invitation or document which, among other things, contains an invitation to the public to acquire an interest in a collective investment scheme has to be authorized by the SFC, unless it falls within an exemption in the SFO. One exemption often being relied upon is where the interests in the collective investment scheme are or are intended to be disposed of only to professional investors as defined under the SFO. Managers should consider, and seek legal advice where appropriate, as to whether the offering circular in respect of the secondary offering has to be submitted to the SFC for authorization under the SFO. • Managers should note the general disclosure obligation under 10.3 of the REIT Code. For instance, even where the offering circular in respect of the secondary offering is not required to be authorized by the SFC pursuant to section 103 of the SFO, the Manager concerned must ensure any price-sensitive information disclosed in such circular is simultaneously released to the market by way of an announcement. Managers should

	Question	Answer
		also note the requirement to issue an announcement where there is an issuance of new units under 10.4 of the REIT Code. • Under the trust deeds of all SFC-authorized REITs, an issue of new units at an issue price that is at a discount of more than 20% to the market price will generally require specific prior approval of holders by way of an ordinary resolution at a general meeting. Managers should note that the above is intended to provide some general guidance only and should seek legal advice where appropriate. Managers are welcomed to consult the SFC to seek further guidance on specific regulatory aspects concerning their proposed secondary offerings.
64.	Can a REIT issue (a) securities convertible into new units of the REIT and (b) warrants, options or similar rights to subscribe for (i) any new units of the REIT or (ii) any securities convertible into new units of the REIT, for cash consideration pursuant to a general mandate under 12.2 of the REIT Code?	The SFC in general seeks to regulate REITs in a similar manner as listed companies. In line with the requirements under Listing Rule 13.36(6) and 13.36(7), a REIT may not issue the following securities for cash consideration pursuant to a general mandate under 12.2 of the REIT Code: (a) securities convertible into new units of the REIT unless the initial conversion price is not lower than the benchmarked price (determined generally with reference to Rule 13.36(5)) of the units at the time of the placing; or (b) issue warrants, options or similar rights to subscribe for (i) any new units of the REIT or (ii) any securities convertible into new units of the REIT.
65.	Can a REIT repurchase its own units, hold repurchased units in treasury and resell the treasury units?	A REIT may repurchase its own units on the Exchange, hold the repurchased units in treasury and resell the treasury units in a similar manner to listed companies under the Listing Rules. Please refer to the circulars dated 31 January 2008 and 24 May 2024 issued by the SFC for details.

65A.	Can the number of units repurchased by a REIT under a repurchase mandate in the year be added to the 20% mandate under 12.2 of the REIT Code? How can one determine the total number of units available for issue or resale?	Under 12.2 of the REIT Code, a REIT may issue new units during the financial year which does not increase its total number of units outstanding at the end of the previous financial year by more than 20% (issue mandate). In line with the Listing Rules, the number of units repurchased by a REIT in the year under a repurchase mandate and held in treasury (Relevant Treasury Units) may be added to such issue mandate limit. As the issue mandate is not subject to unitholders' approval, no separate unitholders' approval would be required for the resale of the Relevant Treasury Units in the year. Both the issue mandate limit and the repurchase mandate limit should be calculated based on the number of issued units of a REIT excluding any treasury units held by the REIT at any given time. Please see below an illustrative example demonstrating how to determine the available repurchase mandate limit and issue mandate limit after units have been repurchased and issued. Assuming a REIT repurchased its units and resold/issued treasury/new units as follows: • A REIT had 1,000 units in issue at the beginning of Year 1, and obtained a repurchase mandate (to buy back up to 100 units) from its unitholders and was entitled to an issue mandate (to issue or resell up to 200 units, plus the number of units repurchased in the year under the repurchase mandate). • During Year 1, it repurchased 100 units first and then issued 200 units. • During Year 2, it obtained a new repurchase mandate, repurchased 80 units first and then issued 300 units under the issue mandate for Year 2.

	At beginning of Year 1	**During Year 1**	**During Year 1**	**At beginning of Year 2**	**During Year 2**	**During Year 2**
	A new repurchase mandate and issue mandate for Year 1	***Repurchased 100 units***	***Issued 200 units***	***A new repurchase mandate and issue mandate for Year 2***	***Repurchased 80 units***	***Issued 300 units***
Issued units in circulation (excluding treasury units)	**1,000**	**900**	**1,100**	**1,100**	**1,020**	**1,320**
Available 20% mandate limit	200	300	100	220	300	0
Available repurchase mandate limit	100	0	0	110	30	30

The number of issued units in circulation (ie, excluding treasury units) would be the same under both of the following scenarios:

- Scenario 1: All issuances are in the form of resale of treasury units first, with any remainder fulfilled by issue of new units.
- Scenario 2: All issuances are in the form of issue of new units.

However, the total number of issued units is greater under Scenario 2, reflecting the treasury units in issue (but not in circulation).

	At beginning of Year 1	**During Year 1**	**During Year 1**	**At beginning of Year 2**	**During Year 2**	**During Year 2**
	A new repurchase mandate and issue mandate for Year 1	***Repurchased 100 units***	***Issued 200 units***	***A new repurchase mandate and issue mandate for Year 2***	***Repurchased 80 units***	***Issued 300 units***
Scenario 1:						
Total issued units, comprising of:	1,000	1,000	1,100	1,100	1,100	1,320
- Treasury units	0	100	0	0	80	0
- **Units in circulation**	**1,000**	**900**	**1,100**	**1,100**	**1,020**	**1,320**
Scenario 2:						
Total issued units, comprising of:	1,000	1,000	1,200	1,200	1,200	1,500
- Treasury units	0	100	100	100	180	180
- **Units in circulation**	**1,000**	**900**	**1,100**	**1,100**	**1,020**	**1,320**

	Question	Answer
66.	Paragraph 6 of the repurchase circular dated 31 January 2008 issued by the SFC provides that any REIT proposing to repurchase its units shall also comply with the other restrictions and notification requirements applicable to listed companies purchasing their own shares on a stock exchange under Rule 10.06 of the Listing Rules ("Rule 10.06"), with necessary changes being made, as if the provisions therein were applicable to REITs. Is the restriction on subsequent issue of new shares within 30 days after a purchase under Rule 10.06(3) applicable to an issue of new units to the REIT manager as payment of management fees?	Payment of management fees to the REIT manager in the form of units ("management fee units") is a common practice adopted by listed REITs in Hong Kong. The detailed payment mechanism, including the timing of issue of the management fee units and the basis for determining the price and number of management fee units to be issued, will normally be set out in the trust deed of the relevant REIT and usually put in place at the time of the authorization of the REIT. One key rationale of Rule 10.06(3) is to ensure that the issue of new shares does not take place at a market price that has been affected by the issuer's previous repurchase of its own shares[2]. Rule 10.06(3) also provides that the restriction on subsequent issue does not apply to an issue of securities pursuant to the exercise of warrants, share options or similar instruments requiring the issuer to issue securities, which were outstanding prior to that purchase of its own securities. In light of the above, it is hereby clarified that the restriction on subsequent issue under Rule 10.06(3) is not intended to be applicable to the issue of management fee units by a REIT for the purposes of paragraph 6 of the repurchase circular in general provided that the REIT manager can demonstrate that: (a) the management fee units are issued pursuant to the terms of the trust deed of the REIT or any other pre-existing arrangements binding on the REIT, which were outstanding prior to that purchase of its own units; and (b) the issue of the management fee units will not take place at a market price that has been affected by the REIT's previous repurchase of its own units. REIT managers should consult the Investment Products Division at the earliest opportunity if they are in doubt.

[2] see Listing Decision HKEX-LD99-1

	Question	Answer
67.	Can a REIT adopt an incentive plan similar to a share option scheme or employees' share award scheme commonly adopted by listed companies to incentivise and/or reward the employees of the Manager? What are the relevant requirements for adopting such plan?	In principle, the SFC has no objection to REITs adopting such incentive plan. Managers should note the following in relation to the adoption of such incentive plan. (a) The plan must be authorized by the Commission pursuant to section 105 of the SFO. The SFC would expect the plan to comply with the relevant requirements set out in Chapter 17 of the Listing Rules as if they were applicable to the plan. (b) The adoption of the plan must be permitted under the trust deed and other constitutive documents of the REIT. (c) The grant of awards to connected persons of the REIT will be subject to Chapter 8 of the REIT Code which is broadly aligned with the Listing Rules, and Chapter 12 of the REIT Code. REIT managers should note that the above is intended to provide some general guidance only. REIT managers should consult the Investment Products Division at the earliest opportunity if they would like to adopt such incentive plan.
Miscellaneous		
68.	How can submissions be made to the SFC?	Given that submissions made in respect of REITs may contain price-sensitive information, prudent care should be taken when making submissions to the SFC. REIT managers and advisers should make all submissions via e-IP unless otherwise required. Where submissions are to be made via facsimile, by post or by hand for any reasons, the relevant case officer should be informed in advance.
69.	What are the requirements for submitting post-authorization documents to the SFC?	Set out below are the requirements for submitting documents to the SFC via e-IP in connection with post-authorization matters of SFC-authorized REITs. A) Submission of documents by soft copy REIT managers shall submit documents by soft copy for all applications and post-filings.

	Question	Answer
		The official receipt date of post-authorization application or filing shall be a business day on which the full and complete set of soft copy documents is received by the SFC via e-IP. B) Signing of post authorization documents During the submission process, you may complete the signing process for certain post authorization documents (including the size tests) in e-IP. Please refer to section 4.1.2.5. entitled – "Completing the signing process for the Ordinary Form(s) & Checklist(s) (where applicable)" of the e-IP (Investment Products Division) User Guide for details. For other post authorization documents not covered in the signing process in e-IP, please refer to the options below: Option 1: Apart from the directors' declaration (in line with the format set out in the Application Checklist for REITs) to be provided for an appointment of director by a REIT manager, we will accept submission of un-signed copies of the relevant submissions, checklists, confirmations and other relevant documents (the "Relevant Post-Authorization Documents"), which are required to be completed, as applicable, by a REIT manager or other parties, provided that the Relevant Post-Authorization Documents shall be submitted with an email confirmation or other equivalents (from a person who meets the signatory requirements) that all information and, where applicable, confirmations and undertakings contained in the Relevant Post-Authorization Documents (and all documents submitted relating thereto) are true and accurate. Option 2: A REIT manager may submit scanned copies of the Relevant Post-Authorization Documents and the directors' declaration (in line with the format set out in the Application Checklist for REITs) signed by a person who meets the signatory requirements.
70.	Is the payment of roadshow expenses in relation to the listing of a REIT allowed to be made out of a REIT's assets?	9.11 of the REIT Code contemplates the payment out of a REIT's assets of all fees and expenses (including underwriting fees) that are incurred in relation to the listing of a REIT, if such payment is permitted under the trust deed of the REIT and is disclosed in the offering circular. This rule governs the treatment of listing-related expenses and takes precedence over 9.13 of the REIT Code. As such, roadshow expenses (such as costs for press conference, luncheons and presentations to investors, overseas travelling and fees for public relations consultants) incurred in connection with the listing of a REIT can be paid out of the

	Question	Answer
		assets of a REIT if they are allowed under the trust deed of the REIT and are disclosed in the offering circular.
71.	Are the mandatory electronic filing of disclosure of interests notifications arrangements applicable to SFC-authorized REITs?	An SFC-authorized REIT is currently required to adopt provisions substantially equivalent to those in Part XV of the SFO governing disclosure of interests obligations in its trust deed. Accordingly, REIT managers, their directors and chief executive, as well as any person who is interested in 5% or more of the units in an SFC-authorized REIT should comply with the mandatory electronic filing provisions under Part XV of the SFO (with necessary adaptations) as if they were applicable to REITs. You may refer to the press release dated 5 May 2017 issued by the SFC for details of the electronic filing arrangements: http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=17PR63

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