FAR EAST
CONSULTING ENGINEERS LIMITED
遠東顧問工程師有限公司

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

Date : 24 February 2014

Dear Sirs,

Re : Consultation Paper on Amendments to the Code on Real Estate Investment Trusts

In response to the above consultation paper, we wish to express our views as follows:-

Question 1: Do you consider that flexibility in respect of property development investments and related activities should be introduced for REITs?

The rapid growth of wealth in the region and need for investment products to cater to the growing retirement savings market in Asia will give rise to substantial demand and growth for REITs. Hong Kong must strengthen its position and increase its competitiveness to capture the potential growth of REIT market. REIT has grown in popularity and size in many overseas markets, but after decade of the launch of the REIT market in Hong Kong, only approximate 10 REITs are currently listed, substantially lagging the growth of other REIT markets in the region. Due to the restrictiveness of the current REIT regulations in HK, many property owners and new issuers have either listed their assets abroad where the regulatory regime is less biased against growth, or opted for the convoluted structure of a business trust to avoid the regulatory hurdles associated with the REIT Code. Hence More flexibility to Hong Kong REITs is necessary for more variety to investors.

Since Hong Kong stands as the best-positioned market to tap into the substantial potential of REIT listings for Chinese and regional assets, Hong Kong must take hold of the opportunity as the preferred listing venue for REITs. As Hong Kong develops its REIT market, more investment analysts and property specialists will be required to cover the stocks. Brokerage service will also benefit from the increase in trading. Asset management market will also develop, with frequent financing and acquisition activities, REITs will increase the demand for services from various experts such as lawyers, accountants, valuers, surveyors, tax advisors and other financing professionals.

香港總公司 HEAD OFFICE
遠東顧問工程師有限公司
香港英皇道二百六十號怡安中心十二字樓
12/F, GREENWICH CENTRE, 260 KING'S ROAD, HONG KONG
Tel : (852) 2895 3888
Fax : (852) 2895 5131
E-mail : fareast@fecel.com

上海代表處 SHANGHAI OFFICE
快依時（上海）工程咨詢有限公司
中國上海市延安西路一五六六號龍峰大廈五樓D座（郵政編碼：200052）
ROOM 5D, LONG FENG MANSION, NO. 1566 YAN AN ROAD (WEST), SHANGHAI 200052, PRC
Tel : (8621) 5109 6832
Fax : (8621) 5109 6823
E-mail : fareast@fecel.com.cn

澳門代表處 MACAU OFFICE
遠東（澳門）工程顧問有限公司
澳門蘇利亞斯博士大馬路25號
互助會大廈3字樓37室
AV.DR. MARIO SOARES, NO. 25, EDF. MONTEPIO, 3 ANDAR SALA 37, MACAU
Tel : (853) 2833 0332
Fax : (853) 2833 0925

北京代表處 BEIJING OFFICE
中國北京市朝陽區東三環南路19號
聯合國際大廈五層537室（郵政編碼：100021）
ROOM 537, 5/F, LIANHE INTERNATIONAL TOWER, 19 DONGSANHUAN SOUTH ROAD, CHAOYANG DISTRICT, BEIJING 100021, PRC
Tel : (8610) 8766 7468
(8610) 8766 7478
Fax : (8610) 8766 7478 608
E-mail : fecelbj@vip.sina.com

Web-site : www.fecel.com

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REIT regulations should seek a fine balance between investor protection and choice. Acquisition is currently the only form of inorganic growth stipulated by the REIT Code as the current REIT Code denies investors the choice as it restricts Hong Kong REITs from undertaking any property development activities. If REITs were allowed to pursue property development, it would be equivalent to acquiring projects at an earlier stage, designing the assets to suit their specific needs, and achieving better returns on the investments. More specifically:

1. It would allow better integration with the infrastructure, e.g. connections to planned footbridges or mass transit systems to serve the community better and to add value to the asset;
2. It would produce less material wastage and achieve higher efficiency during construction since the REITs could tailor-make their own assets to suit their particular operational structures and business targets;
3. It might lower fundamental cost on land acquisition, design development and overall construction compared to purchasing a built-asset at a higher price; and
4. It would offer a more sustainable solution than a major overhaul of the existing property and alleviate unnecessary disturbances to the existing tenants, users and public.

With more flexibility in their investment scope, REIT investors will have a wider variety of investment products to choose from. Investors can assess their respective risk appetite and choose the appropriate REIT whose business strategy matches their appetite. This choice should be the very necessary and important right of the REIT investor.

Question 2: Do you consider that the 10% GAV (Gross Asset Value) Cap is set as an appropriate threshold?

10% GAV Cap for REITs to undertake property development investments and related activities is an appropriate threshold to safeguard the overall risk profile of the REIT.

Question 3: Do you have any comments on how the Property Development Costs should be calculated?

Property Development Cost should include the cost of land acquisition (if any), REIT manager's estimates of the development/construction costs and a prudent buffer. Thus SFC's proposal on the calculation of Property Development Costs is appropriate.

Question 4: Do you have any comments on the frequency of periodic updates that should be provided to unitholders on the status of property development investments and related activities?

REIT managers should provide in good faith periodic updates to inform the market and unitholders of any subsequent increases to the Property Development Cost.

Question 5: What additional safeguards do you consider appropriate to ensure there will not be any material change to overall risk profile of a REIT despite the flexibility to engage in a limited extent of property development investments and related activities?

The proposed 10% GAV Cap already provides an appropriate threshold to safeguard the overall risk profile of a REIT. The two-year minimum holding requirement will allow REITs to mitigate some of the volatility to their earnings given the much longer term investment horizon.

Question 6: Do you have any comments on the proposed scope of the Relevant Investments and the proposed Maximum Cap?

The proposed scope of the Relevant Investments and Maximum Cap are appropriate thresholds and in line with comparable regional regimes such as Singapore and Malaysia.

Question 7: What other safeguards do you consider appropriate to be put in place corresponding to the proposal to allow for the Relevant Investments?

The proposed scope of Relevant Investments is appropriate and in line with comparable regional regimes.

We should be grateful if you could take the above into consideration when making amendment on the REIT.