SECURITIES AND FUTURES COMMISSION

證券及期貨事務監察委員會

Code on Real Estate Investment Trusts

Hong Kong

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Securities and Futures Commission

Code on Real Estate Investment Trusts ("REITs")

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General Obligations of a Management Company

Note: In jurisdictions where it is a common practice to take out title insurance, the management company is expected to make such insurance arrangement in respect of properties located in such jurisdictions.

Notes: (1) *The management company shall take all reasonable steps to ensure that the rights of a scheme over the overseas properties are properly vested and registered under applicable land title and property laws of the relevant jurisdiction(s) and are enforceable in the judicial system of such overseas jurisdiction(s).*

(2) *While the areas or issues in relation to which due diligence shall be conducted vary according to the property, its geographical location and other circumstances, the standards of due diligence to be performed on a property shall be the same regardless of the location of the property.*

(3) *It is the management company's responsibility to conduct all proper and thorough due d5 TD proor(e)Tj4.5 -1.15 TD0(lig)50.13*

(viii) current and prospective leases and material agreements;
(ix) outgoings required in maintaining and operating the property; and
(x) the scope and value of the insurance in place.

(The above list is meant to give some indication of the areas requiring due diligence and is not meant to be exhaustive.)

Criteria for Acceptability of Management Company

Notes: (1) *The management company shall ensure that its delegates are fit and proper. This includes ensuring that the delegates are companies with a good and established reputation in performing such duties, and have sufficient resources, relevant experience, and professional qualifications (those set out in Note (2) to 5.4) to carry out their duties in relation to the functions being delegated. Such delegates shall also be financially sound, have a positive net asset position, and have acquired sufficient insurance (including professional insurance, where applicable) to cover the usual risks.*

(2) *The agreement between the management company and each of the delegates shall clearly document the demarcation of functions between themselves.*

Note: The management company may appoint joint listing agents. Where more than one listing agent is appointed, the Commission may require the management company to designate one of the listing agents to be the primary channel of communication with the Commission concerning matters involving the application. However, the listing agents of a scheme are jointly and severally responsible and liable for their work conducted in relation to the offering of the units of the scheme.

Notes: (1) The Commission expects any listing agent or financial adviser appointed by the management company of a scheme shall at all times perform its functions and duties and conduct its activities in accordance with the standards and requirements under the Commission's codes and guidelines including the Corporate Finance Adviser Code of Conduct, licensing conditions and such other conditions as the Commission shall impose.

(2) It is the duty of the management company to ensure that any listing agent appointed for the purpose of managing an initial public offering, or financial adviser appointed in relation to a transaction, is fit and proper, and possesses the relevant experience and resources to undertake the work. Notwithstanding the appointment of a listing agent or financial adviser and their respective responsibilities under this Code and all relevant laws and regulations, the management company shall remain responsible for all matters relating to the conduct of an initial public offering and the listing of the scheme.

(3) The listing agent appointed in connection with the listing of a scheme and the financial adviser appointed in relation to a transaction shall be a person licensed by the Commission to engage in one or more regulated activities including the provision of relevant corporate finance services, and shall be acceptable to the Commission.

(4) Marketing materials in relation to a scheme may only be published, distributed or issued to the public after they are authorised by the SFC. For avoidance of doubt, the SFC would normally not authorise any marketing materials for a scheme before the scheme is authorised by the Commission or listing approval is granted by the Exchange.

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Valuation Report

Notes: *(1) Where a valuation report is allowed by the Commission to be published in summary form, the full valuation report shall be made available for inspection at an address in Hong Kong. A statement has to be made in the published report to this effect.*

(2) Where a legal opinion is required, such opinion together with copies of any document referred to therein shall be made available to the Principal Valuer and the relevant overseas valuer, if any, engaged in the valuation of the relevant property prior to the completion of the valuation report.

Note: Where the date of the valuation report precedes the end of the last

Chapter 7: Investment Limitations and Dividend Policy

Core Requirements

Note: Additional layer(s) of special purpose vehicles may be allowed by the Commission under limited circumstances, such as where the management company could demonstrate to the Commission's satisfaction that the arrangement is necessary for the purpose of meeting the legal or regulatory requirements of an overseas jurisdiction or in special situations with valid justifications.

Note: Where the scheme invests in hotels, recreation parks or serviced apartments, such investments shall be held by special purpose vehicles.

Note: The accountant shall be qualified under the Professional Accountants Ordinance for appointment as auditor of a company and shall not be an officer or servant, or a partner of

Notes: *(1) The management company shall ensure that proper due diligence is conducted in identifying restrictions and constraints that may limit a scheme's direct ownership of a 100% interest in a property.*

(2) The liability of or assumed by a scheme shall not exceed the percentage of its interest in the joint ownership arrangement and there shall be no assumption of unlimited liability by the scheme.

(3) The management company shall disclose to investors (whether in the offering document, circular or announcements to investors/holders, as the case may be):

(a) the ownership structure of the property interest and the material terms thereof, including restrictions on divestments as described in 7.7A(c)(v) and the impact or implication of such restrictions on the divestment value of the interest in the property;

(b) the identity, background and ownership of the remaining legal and beneficial owners in the property, transactional history of these owners with the scheme in relation to the property and their relationship with any connected persons to the scheme of the joint ownership arrangement;

(c) financial, remuneration, fee-sharing or other material arrangements that have been or will be entered into between the scheme and the other owners of that property or their associates;

(d) the management company's analysis of the advantages and disadvantages of investing in that overseas property via this type of ownership structure;

(e) a summary of the contents of the legal opinion in relation to the property;

(f) *management company's analysis of the financial impact of such acquisition arrangement;*

(g) *the source of funding of the property investment;*

(h) *where appropriate:*

  (i) *the nature of restrictions on foreign ownership and the duration of them, and the impact of such restrictions on the operations and financial position of the scheme as a whole;*

  (ii) *the relevant legal opinion on the application of the overseas rules and regulations that are prohibitive on a scheme to obtain full ownership in the property; and*

  (iii) *the valuer's opinion and evaluation of the impact of such prohibitions on the value of the property; and*

(i) *any other information which may be relevant to an investor/holder.*

Holding Period

Note: *In the case where a*

(2) All borrowings shall be conducted at arm’s length and the terms shall be commensurate with those of transactions of similar size and nature.

(3) The borrowings of all special purpose vehicles held by the scheme shall be aggregated for the purpose of calculating borrowing limits.

Note: The management company shall ensure that all transactions are carried out in an open and transparent manner. Where circumstances permit, transactions shall be carried out by way of open tender or competitive bidding by auction.

Note: No announcement shall be required for any connected party transaction falling within 8.9 or 8.10 if the value of such transaction does not exceed HK$1 million.

Chapter 9: Operational Requirements

Scheme Documentation

Matters to be Disclosed in Offering Document

English and Chinese Documentation

Inclusion of Performance Data

Notes: (1) The dividend yield forecast shall only cover a period of up to two years. The second yeartwo riod of44415.945 TD-0.000(6o8eeedth the)TjT0.0002 Tng

Chapter 10: Reporting and Documentation

Note: Announcements shall be published in at least one leading Hong Kong English language and one Chinese language daily newspaper. Other electronic means of publication may also be considered by the Commission.

Announcements

Circulars

Note: Where the transaction is a transaction with a connected person of the scheme, the unit holdings and identities of that particular connected person, and of any holders that have a prospective interest (other than interests via their holdings as holders in the scheme) in the transactions proposed to be entered into by the scheme, shall also be disclosed in the circular.

Note: The expression "expert" includes engineer, valuer, accountant and any other person whose profession gives authority to a statement made by him.

"THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF

Reporting Requirements

Reporting to Holders

Chapter 11: Termination or Merger of a REIT

Notes: *(1) All real estate held by the scheme shall be disposed of through public auction or any form of open tender. The disposal shall be conducted at arm's length and in the best interests of the holders. The disposal price shall be the best available price obtained through public auction or open tender.*

(2) The trustee shall ensure that the liquidation exercise is completed within twelve months from the date the termination takes effect. Where the trustee considers it is in the best interests of the holders, the liquidation exercise may be completed for such longer period (in total not to exceed 24 months) as the trustee deems appropriate. Holders shall be informed by way of announcement.

(3) All cash proceeds derived from the liquidation of the scheme shall be distributed to holders on a pro rata basis. Where the liquidation exceeds six months, an interim distribution shall be made in respect of the sale proceeds received by the end of every six-month period, except where no sales were made during such period. Upon completion of the liquidation, a one-off distribution shall be made within one month from the date of completion.

(4) Distributions to holders upon termination of the scheme shall be made in cash only.

Chapter 12: Issue of New Units

Notes: (1) New units may be issued to independent third parties in exchange for real estate under this 12.2.

(2) Where units to be issued under this 12.2 are issued

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Practice Note on Overseas Investments by SFC-authorised REITs

Introduction

Safeguarding Measures for Overseas Investments

Qualifications of the Management Company

Notes: (1) The compliance plan of the management company shall clearly demonstrate that it has proper and adequate due diligence procedures and structured plans as to how an overseas entity (who is appointed to perform one or more management functions) shall be selected and monitored on a continuous basis. Such plan shall include at a minimum the following provisions:

(a) the criteria and procedures for selection of an overseas entity;
(b) the mechanism for regular review of the performance of an overseas entity to reflect changes in relevant rules and regulations in the overseas jurisdictions; and
(c) means to assess shortfalls in standards/performance of an overseas entity.

(2) In assessing an overseas entity for initial or ongoing appointment, the management company shall pay special regard to and disclose where appropriate:

(a) the expertise of the overseas entity;
(b) the professional and liability insurance required to be taken out by the overseas entity in connection with the type of work carried out for a scheme and/or its underlying properties, in accordance with the relevant rules and regulations of the jurisdiction where the overseas entity operates;

Notes: (1) *The overseas valuer shall have suitable experience in conducting property valuation for the relevant type(s) of properties in the relevant jurisdiction on a regular basis.*

(2) *An overseas valuer shall only be acceptable by the Principal Valuer for preparing the valuation report if the former is subject to the oversight of a reputable national professional organization for valuers.*

(3) *The Principal Valuer shall ensure that the criteria for selecting an overseas valuer are consistently and objectively applied, regardless of the location of the overseas property.*

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Note: Where an overseas entity is engaged to manage an overseas property, the details of the arrangement have to be disclosed on substantially the same basis as described in paragraph 7.7A of the Code.

Appendix A

Overseas Regimes Acceptable to the Commission

Jurisdiction	Regulator

Appendix B

Information in the Offering Document

Constitution of the Scheme

B1

Investment Objectives and Restrictions

B2

Note: The management company shall disclose, as a minimum, the information in relation to properties not directly or wholly owned by a scheme, as set out in 7.7A.

Note: *If the scheme has obtained more than one valuation report regarding any of its real estate within six months before the issue of the offering document, then all other such reports shall be included.*

Note: *All the above information has to be disclosed in the context of the specific characteristics and circumstances of the investments made or to be made by a scheme, and shall not be generic statements of investment in the property market.*

B3

Operators and Principals

B4

Note: *Information on the management company shall include:*

(i) *a description of the expertise, experience, resources, internal controls and risk management system regarding the investment activities of scheme; and*

(ii) *a description of the scheme management activities that the management company is licensed by the Commission to perform and any applicable conditions placed on the licence;*

Significant Holders

B5

B6

Characteristics of Units

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B8

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B10

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B12

Distribution Policy

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Fees and Charges

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Reports and Accounts

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Warnings

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General Information

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Note: A responsibility statement as required under 10.10(t) shall be made in the offering document.

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Termination of Scheme

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Merger of Scheme

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Accompaniment to the Offering Document

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Appendix C

Contents of Financial Reports

(b) *International Financial Reporting Standards ("IFRS") as promulgated from time to time by the International Accounting Standards Board. Schemes which adopt IFRS, are required:*

(i) *to disclose and explain differences of accounting practice between IFRS and generally accepted accounting principles in Hong Kong, which have a significant effect on their financial statements; and*

(ii) *to compile a statement of the financial effect of any such material differences.*

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Distribution Statement

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Notes to the Accounts

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Note: A performance table prepared for a semi-annual report shall include (a) to (d) for the relevant interim period.

Appendix D

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Note: The management company shall ensure that all transactions are carried out in an open and transparent manner. Where circumstances permit, transactions shall be carried out by way of open tender or competitive bidding by auction.

Appendix E

Contents of Financial Statements for Liquidation or Merger of Schemes

Appendix F

Preparation and Presentation of Forecast

Note: *A forecast may be provided for a period beyond the current financial year end, subject to approval by the Commission, if the management company reasonably believes that such forecast is compiled in accordance with the principles and requirements set out in this Appendix.*