

18-February-2014

Mr. Ashley Alder  
Chief Executive Officer  
The Securities and Futures Commission  
35/F Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

Dear Mr. Ashley,

**Consultation Paper on Amendments to the Code on Real Estate Investment Trusts**

I am grateful for the opportunity to comment and set out my comments below for your consideration.

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

Since the promulgation of the Code of REIT Code in 2003, REITs and the REITs market in Hong Kong have been experiencing healthy and steady growth. Hong Kong REIT market has also gained investors' confidence which is mainly due to the well-structured legal and regulatory frameworks and the Commission's close scrutiny of the compliance with REIT Code by the REIT managers. At this backdrop, I do not agree the flexibility to allow for property development investments.

Under the current REIT Code, the only permitted investment activity of REITs is restricted to investment in income-generating real estate where investment in vacant land or engaging or participating in property development are prohibited. If introducing the property development investments and related activities into the REIT Code, this will incur risks and uncertainties associated with property development.

The Commission has illustrated some of such risks like construction risk, time delay risk, legal risks and other concerns. However, those risks are not comprehensive. Some risks may not be identified or identifiable at the time of entering into the development project, such as SARS or global financial crisis, nor be enough to educate the market and investors of the inherent risks associated with property development.

Given Hong Kong REIT market is one of the smallest in the Asia Pacific region and the prevailing volatility of the property market in Hong Kong. I do not think it is a right time to permit REITs to participate or engage in property development.

Question 2. Do you consider that the 10% GAV Cap is set as an appropriate threshold?

In spite of the fact that I am opposing the property development investments and related activities should be introduced for REITs. I also hold a view that using GAV as a cap and a measurement of the threshold is too aggressive. This would be more appropriate to use net asset value as a basis for calculation of the cap for the permissible amount of participation in property development. This could minimize the degree of the risks to which REIT investors or unitholders will be exposed.

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

Not supportive to the entire proposal.

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?

Not supportive to the entire proposal.

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?

No safeguards, therefore not supportive to the entire proposal.

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

I do not agree to this particular proposal to permit a REIT to invest in non-real estate assets. Investment in non-real estate assets requires completely different skills, knowledge and expertise. This again, will incur extra cost of hiring professionals, where returns are not guaranteed and could hurt the stable nature of the REIT's distribution. Furthermore, this sort of investment may create an investment strategy overlapping with existing unitholders which are also equity or debt investors, creating more confusion to the market participants.

In addition, investment in such non-real estate assets may, directly or indirectly, encourage the REIT to engage in the investments of speculative nature, or high risk investments and allows the REIT managers to raise capital blindly by investing in those non-real estate assets which may not require unitholders' approval.

The Maximum Cap of 15% of the gross asset value of the REIT to invest in this proposal will definitely undermine the core value of a REIT, that is setup primarily in the first place to generate recurrent rental income. The scope is also too wide as in contradicting one of the fundamentals of REITs, which is having a well-defined and focused investment strategy. Nevertheless, if REIT is allowed to invest in non-real estate assets, those instruments should have a nature of that the principal is protected in the first place.

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

No safeguards, therefore not supportive to the entire proposal.

In conclusion, REITs are defensive investment instrument and should not be proposed to permit participating in property development and non-real estate assets, which contravene the nature of REITs. I will be very worried if the two proposals in the consultation paper, REITs will be difficult to classify from property companies as no clear and substantive distinction between these two. This is not promoting the REIT market but the other way around, diminishing this investment instrument.

Thank you very much for your attention.