20 February 2014

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

Dear Sirs,

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

I refer to the above consultation paper released on January 2014 (the “Consultation Paper”). I am in general **disagree** with the proposals.

I set out my comments below for your consideration.

1. No, I disagree with the introduction in respect of property development investments and specific activities for REITs. Under the current REIT Code, it restricts the investment activity of a REIT in income-generating real estate whereas investment in vacant land or engaging or participating in property development. These restrictions are well-defined, focused and transparent investment strategy to safeguard REIT manager from doing risky business, as a result, protecting unitholders’ interest.

   By increasing the flexibility to property development investments activities, this is no doubt that the risks and uncertainties associated will be far more than investment in real estate that generates recurrent rental income. These arising risks including construction risk, time delay risk, legal risk, cost inflation risk, legal risk and other concerns.

   Although proper due diligence, sufficient monitoring and skills may minimize or mitigate the aforementioned risks, these steps may neither be sufficient to safeguard against those unpredicted risks such as global financial crisis, nor be enough to educate the market and investors of the inherent risks associated with property development.

   A REIT manager can base on the proven records of rental income of the properties to make investment decision, which will give certainty of the stability of rental income generated. In contrast, property development will create uncertainty as no proven record of rental income has been established.

Introducing a new team of expert in property development is also not a cost-effective strategy for REIT manager. Given the delay of income in development project, the initial cost of adding a new team of experts will hit directly to REIT's distribution to a certain extent. In which, no return or payback can be guaranteed, incurring further risk to unitholders.

Taking into account the prevailing volatility of the property market in Hong Kong, I believe this is not a right time to permit REITs to participate or engage in property development. Furthermore, as compared to developer, A REIT is a more defensive investment scheme. To permit a REIT to participate or engage in property development will not only cause competitions between the property companies and REITs in the property development market in Hong Kong, but also blur the clear distinctions between the REITs and property developer.

I also do not disagree with this 10% GAV Cap to set as an appropriate threshold. Without prejudice to my stance of not support of REIT to engage in property development investments and related activities, I am of the view that using the gross asset value as a basis for calculation of the Cap is too high and that it would be more appropriate to use the net asset value as a basis for calculation of the cap for the permissible amount of participation in property development. By using the net asset value to be the basis of calculating the threshold, this may minimize the degree of the risks to which the unitholders will be exposed.

In general I do not agree with the proposal of introducing property development investments for REITs. Also, I do believe there are no safeguards for the proposal of introducing property development investments for REITs.

2. No, I disagree to permit a REIT to invest in the proposed scope of the Relevant Investments and the proposed Maximum Cap.

   Investment in non-real estate assets requires completely different skills, knowledge and expertise, which the RET managers may not have. This particular proposal will cause the REIT managers to incur more expenses in engaging the relevant experts. Similar to the aforementioned proposal on property development investments, this additional cost will hit REIT's distribution directly, without any return and payback prospect.

   In relation to the Relevant Investments, I am of the view that to allow a Maximum Cap of 15% of the gross asset value of the REIT to invest in non-real estate assets will definitely contradict the fundamental principle of the REITs that they are primarily intended to be recurrent rental income-producing vehicles investing in real estate.

In addition, the proposed scopes of non-real estate are too wide that it will eliminate the core strategy of the REITs, which is having a well-defined and focused investment strategy. I believe that the permissible non-real estate assets should be restricted to principal protected instrument. No safeguards for this particular proposal in this market.

In conclusion, I am not supportive to both of the proposals listed out in the Consultation Paper. As REITs are defensive investment scheme, I do not see any reason why the Commission takes such a robust approach to propose to permit participating in property development and to invest in non-real estate assets which contradict the fundamental principles of REITs.

I hope my comments above would be helpful to you.

Yours faithfully

Au Mei Hing