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,

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 not supportive with all the proposals.

I set out my comments below for your consideration. The item numbers below correspond to the question numbers in Consultation Paper.

1. I disagree that introducing property development activities to REIT will increase the flexibility in general.

   REITs are restricted to investment in income-generating real estate, investment in vacant land or engaging or participating in property development is prohibited under the current REIT code. The property development investments and related activities 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.

   Hong Kong’s REIT market, with currently only 10 participants, is still too small and cannot afford to lose any participant due to bad decision making on their property development operations. The risk tolerance level is still very small.

2. I disagree the 10% GAV Cap is an appropriate threshold

   Along with my opposing stance on the aforementioned property development proposal, I am also opposing to use GAV as a cap as the measurement of the threshold. The measurement is simply too aggressive. In my personal view, this would be more prudent to use net asset value as a basis for calculation of the cap for the permissible amount of participation in property development. This could mitigate the degree of the risks to which REIT stakeholders will be exposed.

3. Not supportive to the overall proposal

4. Not supportive to the overall proposal

5. Do not think there is any safeguards for this proposal, therefore not supportive.

6. I disagree with the proposal to permit a REIT to invest in non-real estate assets. Investment in non-real estate assets requires completely different skills set and expertise. As a result, REIT manager may need to incur extra cost to hire more appropriate manpower, where no projected returns (unlike those rental generating real estate investment and asset enhancement initiatives) shall be provided.

   This kind of investment strategy will also overlap with existing unitholders which are long-time equity or debt investors, creating over exposure to their portfolio to particular instruments.

   Furthermore, REIT manager invest in such non-real estate assets may, directly or indirectly, engaging in investments with speculative nature and allow 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 25% (10% Cap from the development project side) of the gross asset value of the REIT to invest in this proposal will damage the core value of a REIT, which is initially setup to generate recurrent rental income. The scope is also too wide as in contradicting one of the fundamentals of REITs - 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.

7. Do not believe there is safeguards, therefore not supportive to the overall proposal.

To summarize my views from the Consultation Paper, 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.

As an investor, I am very worried if Hong Kong REITs can participate in the two proposals listed out in the Consultation Paper. This will be difficult for me to classify

REITs from property companies, as there is no clear and substantive distinction between these two. Therefore, these initiatives are not promoting the REIT market, but diminishing the attractiveness of this unique and stable investment instrument.

Thank you very much for your attention.

Yours faithfully,

Mandy To