ARA (An Affiliate of Cheung Kong Group) ASSET MANAGEMENT (FORTUNE) LIMITED 置富資產管理有限公司

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Date: 24 February 2014

By Post and By Email

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

We are writing to you in response to the recent "Consultation Paper on Amendments to the Code on Real Estate Investment Trusts" (published in January 2014) by the Securities and Futures Commission (the "**Consultation Paper**").

Our company is the manager of Fortune Real Estate Investment Trust ("**Fortune REIT**"), a REIT established in 2003 with dual primary listings on The Stock Exchange of Hong Kong and The Singapore Exchange Securities Trading Limited. Fortune REIT was Asia's first cross-border REIT and also the first REIT to hold assets in Hong Kong. Fortune REIT currently holds 17 retail assets in Hong Kong with a total valuation of over HK$29 billion as at 31 December 2013.

Since the introduction of REITs in Hong Kong and promulgation of the Code on Real Estate Investment Trusts (the "**REIT Code**") in 2003, REITs and the REIT market in Hong Kong have experienced healthy and steady growth and have gained investors' confidence which are mainly due to the well-structured legal and regulatory frameworks and the Commission's close scrutiny of the compliance with the REIT Code by the REIT managers.

Under the REIT Code, the permitted investment activity of a REIT is restricted to investment in income-generating real estate whereas investment in vacant land or engaging or participating in property development is prohibited. These investment restrictions and prohibitions are tailored for the unique investment characteristics of REITs, which include, among other things, a well-defined, focused and transparent investment strategy and generation of a stable source of recurrent income from the properties.

With regards to the proposed amendments to the REIT Code in the Consultation Paper, we would like to express our views below.

Q1. Do you consider that flexibility in respect of property development investments and related activities should be introduced for REITs?

We DO NOT AGREE to the proposal to permit a REIT to participate or engage in property development. It is no doubt that the risks and uncertainties associated with property development are far more than investment in real estate that generates recurrent rental income.

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Although it is stated in the Consultation Paper that REIT managers who decide to undertake property development investments and related activities must have the requisite competence, expertise and effective internal controls and risk management system, these self-policing steps may neither be sufficient to safeguard against some risks that may not be identified or identifiable at the time of entering into the contract, nor be enough to educate the market and investors of the inherent risks associated with property development.

In addition, 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. To the contrary, property development will create uncertainty as no proven record of rental income has been established.

Having considered the local market condition and taking into account the prevailing volatility of the property market in Hong Kong, we are of the view that it is not a right time to permit REITs to participate or engage in property development.

This proposal will not only undermine the unique characteristics and fundamental principles of the REITs when they were first introduced in Hong Kong, but also jeopardize investors' interest by exposing the REITs to the risks and uncertainties associated with property development.

Q6. Do you have any comments on the proposed scope of the Relevant Investments and the proposed Maximum Cap?

We also DO NOT AGREE to the proposal for REITs to invest in "Relevant Investments" as defined in the Consultation Paper.

Investment in non-real estate assets requires completely different skills, knowledge and expertise, which the REIT managers may not have. This proposal will cause REIT managers, and ultimately the REIT itself, to incur more expenses in engaging the relevant experts.

Furthermore, 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 allow the REIT managers to raise capital blindly by investing in those non-real estate assets which may not require unitholders' approval.

In relation to the permissible percentage and variety of investments, we are of the view that to allow 25% of the gross asset value of the REIT to invest in Relevant Investments and Property Development Investments will definitely undermine the fundamental principle of the REITs that they are primarily intended to be recurrent rental income-producing vehicles investing in real estate. Also, the proposed varieties of non-real estate assets are wide enough to eliminate one of the fundamentals of the REITs, ie. having a well-defined and focused investment strategy.

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Conclusion

We do not support the proposals set out in the Consultation Paper. As REITs are defensive investment scheme by nature, we 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.

Yours faithfully,
For and on behalf of
ARA Asset Management (Fortune) Limited

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26 February 2014

BY EMAIL (reitsconsultation@sfc.hk) AND BY HAND

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

1. We, ARA Asset Management (Fortune) Limited, manager of Fortune Real Estate Investment Trust, write further to our letter dated 24 February 2014 in response to the captioned consultation paper (published 27 January 2014) and would like to provide our further comments on the proposals, specifically, additional reasons for disagreeing with questions 1 and 6 of Appendix B thereto.

2. Rental incoming generation is a fundamental principal of real estate investment trusts ("REITs") as investors of REITs are those who look for stable returns. The proposal to permit REITs to invest in properties under development or engage in property development activities (collectively, the "Property Development") would substantially affect the ability of REITs who engaged in the same to generate stable returns to their unitholders by reason of the additional risks associated therewith.

3. Unlike the business of letting properties for stable rental income, property sale market is sensitive to market and economic conditions and thus subject to more intense prices fluctuations. Also, property curbs also play a critical part in the performance of those who engaged in the business of Property Development. REITs, and therefore their unitholders, would be exposed to these market risks and policy risks if REITs are to participate in Property Development.

4. Besides, extended time-span taken before generation of returns would also affect the cash flow of REITs and may not be fully consistent with a REIT's profile as a primarily recurrent income generating vehicle.

5. The Property Development proposal would also blur the distinction between REITs and property developers. REITs managers are unlikely to possess the required skills to manage and oversee Property Development projects which are different from the skills of REITs management. If burden is put on REITs managers to possess the requisite competence, expertise and effective internal controls and risk management system for conducting such investments or activities as proposed, the

manager may have to engage external professionals or substantially expand its existing team that would in turn increase the costs of the REITs and affect the yields enjoyed by their unitholders.

6. The 10% cap of Property Development projects also restricts level playing fields amongst REITs. Small size REITs are practically prevented from participating in Property Development in light of the substantial amount of capital required, the dividend policy requirement under the Code on Real Estate Investment Trusts and their respective trust deeds, and the borrowing limit of REITs.

7. Regarding the proposal for introducing flexibility in respect of investments in financial instruments, the Commission proposed to include unlisted debt securities. As unlisted debt securities could be high risk structured products targeting to professional investors, such investment would lead to added exposure of REITs to risks and may affect the REITs' ability to pay distributions to unitholders. Furthermore, REITs generally may not have sufficient surplus to invest in financial instruments given the distribution policy requirement and therefore the return would not be significant, notwithstanding the added exposure of high risk structured products.

8. We agreed with the Commission that it shall be mindful of the need to strike a proper balance between facilitating market development and competitiveness on the one hand, and ensuring the protection of investors' interests and market integrity on the other hand. Taking into account of our comments above, the Commission is suggested to enhance measures to protect investors' interests alongside with adjustments to your proposals if they are to be introduced to ensure a healthy development of REITs market in Hong Kong.

Yours faithfully,
For and on behalf of
ARA Asset Management (Fortune) Limited