Date: 20 February 2014

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 consultation paper on amendments to the Code on Real Estate investment Trusts ("Consultation Paper") issued by the Commission on 27 January 2014. I would like to submit my comments and express my views and concerns as follows.

Unless otherwise specified, terms defined in the Consultation Paper have the same meanings when used in this letter.

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

1.1 I do not agree the flexibility to allow for property development investments and related activities should be introduced for REIT.

1.2 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. Such risks include construction risk, time delay risk, legal risk and other concerns.

1.3 However, those risks identified above are not exhaustive. Although proper due diligence, sufficient monitoring of property development and sufficient skills and processes may minimize or mitigate such risks, 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, such as global financial crisis, nor be enough to educate the market and investors of the inherent risks associated with property development.

1.4 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.

1.5 The perils of risks and uncertainties associated with property development can be illustrated by some cases in other jurisdictions, which permit REITs and business trusts participating or engaging in property development. One of these cases is Indiabulls Properties Investment Trust ("**IPIT**"), a Singapore-based business trust, which has listed its units on the Singapore Stock Exchange since June 2008. In the prospectus in relation to the initial public offering of IPIT's units, it was stated, among other things, that:

(a) IPIT's property portfolio comprised two properties under development in India;

(b) the management team and board of directors of its manager were experienced in, among other things, property management and property development; and

(c) the base rental income forecasts for 2009 and 2010 were S$106.9 million and S$372.3 million respectively.

(d) However, after its listing, there had been substantial delay in the completion of the property developments and the leasing environment in India was worse than IPIT anticipated. Although IPIT constantly made disclosure (either voluntary or at the request of the Singapore Stock Exchange) about the status and details of the project development and the risks associated therewith, IPIT was unable to meet the forecast figures stated in its prospectus, and the actual figures for base rental income for its financial year ended 31 March 2009 was S$0.3 million and for its financial year ended 31 March 2010 was S$21.6 million. No dividends were declared to unitholders until 2012.

(e) Despite the management team and board of directors possessing the skills of and experience in property development and IPIT's compliance with the disclosure requirements, IPIT still experienced the inherent risks and uncertainties associated with property development, such as the construction risk, time delay risk and other unpredictable risk (ie. market condition), and it was ultimately the investors/unitholders of IPIT who suffered from such risks.

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

1.7 Further, as compared to property companies, 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 companies.

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

2.1 Without prejudice to my stance of not supportive of REIT to engage in property development investments and related activities as explained above, 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 so as to minimize the degree of the risks to which the unitholders/investors will be exposed.

2.2 Further, the calculation of the Cap on cumulative basis is not practicable because project costs may be subject to an inflationary environment which will likely cause a REIT participating in property development to exceed the Cap.

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

6.1 I do not agree to permit a REIT to invest in non-real estate assets.

6.2 Investment in non-real estate assets requires completely different skills, knowledge and expertise, which the REIT managers may not have.

6.3 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 to raise capital blindly by investing in those non-real estate assets which may not require unitholders' approval.

6.4 In relation to the permissible percentage and variety of investments, I am of the view that to allow 25% of the gross asset value of the REIT to invest in non-real estate assets 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.

6.5 Without prejudice to our stance of disagreeing to such proposal, the variety of assets and investment products under Relevant Investments are too wide and it is my view that the permissible Relevant Investments should be restricted to the principal protected instrument.

CONCLUSION

Although other jurisdictions, such as Singapore, permit more or less similar investment activities and investment caps, each set of REIT code should suit the local market condition and market need.

Competition in the property development market in Hong Kong is very keen. In my view, to permit REITs to participate in property development will intensify such competition. I do not envisage that most of the REITs in Hong Kong are keen on participating in property development or investment in vacant land for property development.

In addition, not only are the number of risks associated with property development more than investment in recurrent rental income-generating properties, but also the degree of such risks are more severe. Should any event of risk in association with property development occur, it will ultimately be the investors to suffer. Therefore, it is not fair to shift the burden of bearing such risks to the investors.

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. If the Commission is minded to implement the proposal under the Consultation Paper, I have great concern that there will have no clear and substantive distinction between REITs and property companies. Therefore, I respectfully request the Commission to re-consider the appropriateness of such proposals.

To conclude, I am not supportive of the proposal under the Consultation Paper because it 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. Also, I do not observe that there have been overwhelming demands from most of the REITs and the investment community for permitting the REITs to participate in property development.

Yours faithfully,

Chuck Chang
Private Investor