

Feb 24, 2014

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

Dear Mr. Alder,

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

I am an experienced retail investor and writing to submit my views and concerns on the recent consultation paper on amendments to the Code on Real Estate investment Trusts ("Consultation Paper") issued by SFC on 27 January 2014.

I object to the proposals of permitting REIT to invest in property development and financial instruments, which in my view, would certainly raise the risk profile of REITs. As pointed out in the consultation paper, the development of REIT market in Hong Kong has been lagging behind its counterpart in Singapore. However, different regimes have their own local restrains and market dynamics. To blindly follow other regimes will not be in the best interest of Hong Kong investors.

Investing in property development requires the REIT Managers to have some highly specialize expertise which is completely different from managing income producing properties. The uncertainties in aspects like managing cost, construction, legal and policy will certainly add risk to REITs' financials and execution. I would like to submit a failure example by a Singapore based business trust for SFC's attention. Due to some serious delay from one of its development projects and changes in market condition, Indiabulls properties Investment Trust which was listed in Singapore in 2008 was only able to pay dividend until 2012.

Nevertheless, most Hong Kong-listed REITs are too small by their gross asset value. The 10% cap would give REITs very limited development options, given the high land price and construction cost in mature market like Hong Kong. On the other hand, if REITs are to form joint ventures or invest a partial stake for property development, they are likely to lose full execution/management control on the development projects.

For investment in financial instruments, I am of the view that allowing 25% of the gross asset value of the REIT to invest in non-real estate assets will inevitably cause a REIT to lose focus in its investment strategy. I have concerns that REIT Managers, with the pressure on chasing performance among their peers, will pursue short term gain in the expense of long term stability of the REITs.

Based on the above, I respectfully request the Commission to re-consider the appropriateness of such proposals.

Thank you very much for your kind attention. I look forward to the SFC's follow-up action on the Consultation Paper.

Yours sincerely,


Lee Yiu Kwan