

24 February 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 writing to submit my objection to the consultation paper on amendments to the Code on Real Estate Investment Trusts ("Consultation Paper") issued by the Commission on 27 January 2014. My views and concerns are submitted below for the Commission's consideration.

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

1. I am of the view that such flexibility will raise the risk profile of REITs and therefore is not in the best interest of investors, if implemented.
2. REIT, with a clear and focus investment mandate in real estate, is a more defensive investment scheme as compared to property companies. To permit a REIT to invest in property development will not only subject a REIT to the competition with developers in Hong Kong, but also blur the clear distinctions between the REITs and property companies.
3. Even smaller developers will need some niche to survive in the property market as competitive as in Hong Kong. It is questionable that REITs, without any track record and expertise in development market, would be benefiting from trying to enter into such a competitive market.

4. Property development is a very long process during which will expose the REITs to risks including construction risk, time delay risk, legal risk and policy risk etc. There could hardly be any measures enough for *“ensuring that the property development investments and related activities would not result in a material change or increase in the overall risk profile of the REIT”* (the new responsibilities and duties of REIT manager described under 24 (e) of the Consultation Paper).
5. Currently, the market has some clear criteria (usually the yield accretion and the long term growth potential of the properties) to assess REITs’ proposed investment of income producing property. However, there is no such clear basis and visibility in developing a vacant land or converting an existing building to other uses. In many circumstances, getting land use approvals and negotiation in land premiums will take years before construction can be even started.

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

6. I share the concerns as clearly stated in the Consultation Paper that such flexibility will increase the risk profile of REITs if the REIT manager chose to engage in speculative high risk investments.
7. This could distract REITs from focusing on property management and recurrent income generating activities. REIT managers will be tempted to pursue short term or high risk returns from investments in financial instruments which may offer higher returns than real estate acquisitions.
8. Allowing the flexibility for REITs to invest in financial instruments may be welcome by investors who are not satisfied with REITs’ sole real estate exposure. These short-term investors will, one way or another, prompt the REIT managers to pursue for higher return through investing in some risky financial instruments. However, it may not be in the interest of REITs’ main stream investors who are investing in the defensiveness and long term stability of REITs.

Conclusion

My view that the risk and uncertainties inherent from investing in development and financial instruments outweigh the flexibility of doing so. There is not any clear advantage to the development of REIT market in Hong Kong by implementing such flexibility whereas there is no doubt that REITs will eventually lose its unique characteristics of defensiveness if the proposals were implemented. How to

safeguard investors' interest from the increased risk remains an important subject yet to be addressed under the Consultation Paper. By just imposing an Investment cap and let the market regulate by itself will not be in the best interest of investors. I hereby urge the Commission to re-assess the pros and cons of such proposals.

Thank you very much for your kind attention.