

By email

8 March 2005

Investment Products Department  
The Securities and Futures Commission  
8/F Chater House  
8 Connaught Road Central  
Hong Kong

Dear Sirs,

***Consultation Paper on Investments in Real Estate Investment Trusts  
by Collective Investment Schemes Authorized under  
the Code on Unit Trusts and Mutual Funds***

I refer to the above Consultation Paper issued by the Commission in February 2005. In general, I fully support the proposed relaxation made to the Code on Unit Trust and Mutual Funds, except for the minor comments as stated below.

Currently, Chapter 7.14 restricts a scheme to invest in any type of real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies). For example, listed property stocks in Hong Kong shall be allowed as they are “shares in real estate companies”. However, warrants of listed property stocks, as they are not “shares”, may be regarded as “interests in real estate (including options or rights)”, and therefore be restricted.

Further, the proposal allows for investments in “interests in real estate investment trusts (REITs) that are listed on a stock exchange”. It may appear clearer if similar wordings as used in Chapter 7.3 are adopted.

In summary, it is suggested that Chapter 7.14 be changed to:

“7.14

- (a) A scheme may not invest in any type of real estate (including buildings) or interests in real estate (including options or rights).
- (b) Notwithstanding 7.14(a), a scheme may invest in:-
  - (i) shares in real estate companies;
  - (ii) warrants and options where the underlying securities are shares in real estate companies; and
  - (ii) interests in real estate investment trusts (REITs) that are listed or quoted on a market,provided the investments shall comply with the investment limits as set out in Chapters 7.1, 7.2, 7.6, 7.7 and 7.8.

*Note: Market means any stock exchange, over-the-counter market or other organized securities market that is open to the international public and on which such securities are regularly traded.”*

Yours faithfully

Nelson Tang  
Certified Public Accountant