

21 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 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 hereby strongly object to the implementation of the proposal under the Consultation Paper. My views and comments are expressed as follows for the Commission's reconsideration.

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

1. I do not agree the flexibility to allow for property development investments and related activities should be introduced for REIT.
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.
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.
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.
5. 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.
6. 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?

7. Without prejudice to our 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.

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

8. I also do not agree to permit a REIT to invest in non-real estate assets.
9. Investment in non-real estate assets requires completely different skills, knowledge and expertise, which the REIT managers may not have.
10. 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.
11. 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.

CONCLUSION

12. 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.
13. 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.

Thank you very much for your kind attention.

Yours sincerely,

A handwritten signature in black ink, consisting of stylized cursive letters that appear to be 'CCK'.

Carol Choy Ping-Kuen