

23 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 you in response to the recent consultation paper on amendments to the Code on Real Estate investment Trusts ("Consultation Paper") issued by SFC on 27 January 2014. I am not supportive of permitting REIT to invest in property development and financial instruments. I am of the view that these two proposals, if implemented, would increase REITs' execution and financial risk. Accordingly, I would like to raise the following concerns on the two proposals.

The risks and uncertainties associated with property development, such as construction risk, time delay risk, legal risk, policy risk etc, far exceed that encountered in managing recurrent incoming producing properties. It requires the REIT Managers to have a completely different type of skill set and would inevitably raise the risk profile of REITs. Nevertheless, the gross asset values for most Hong Kong-listed REITs are small. The 10% cap would give REITs very limited development options, especially in Hong Kong and other top-tier cities in mainland China where land prices are very high and construction costs are under enormous inflation pressure. 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.

In relation to the permissible 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 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 too wide that REITs will no longer have a well-defined and focused investment strategy.

As REITs are defensive investment scheme, I have concerns that the two proposals, if implemented, will jeopardize investors' interest by exposing the REITs to the risks and uncertainties associated with property development and financial instruments. Therefore, I respectfully request the Commission to re-consider the appropriateness of such proposals.

Thank you very much for your kind attention. We look forward to the SFC's response on the Consultation Paper.

Yours sincerely,



Julius Chau