

24 February 2014

The Securities and Futures Commission
35/F Cheung Kong Center
2 Queen's Road Central
Hong Kong

Dear Sir/Madam,

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

Thank you the Commission for the opportunity to provide my comments on the Consultation Paper. My comments focus specifically on Question 1, 2, and 6.

Please see my comments below:-

Q1	<p>Do you consider that flexibility in respect of property development investments and related activities should be introduced for REITs?</p> <p>Ans:</p> <p>No. Risks and uncertainties associated with property development are far more than investment in real estate that generates recurrent rental income. These risks include construction risk, time delay risk and legal risk.</p> <p>Those risks mentioned above might be able to mitigate through self-policing steps like comprehensive due diligence process and sufficient monitoring of property development. However, these steps may neither be sufficient to safeguard some unidentified risks at the time of entering into the project, such as global financial crisis nor be enough to educate the market and investors of the inherent risks associated with property development.</p> <p>Property development also creates uncertainty on the rental income. This will affect REIT managers when they make investment decision, as no proven records of rental income can be based on. As a result, lingering the respective REIT to carry out their investment strategies and limiting the growth opportunities once they enter into a development project.</p> <p>Not too many Hong Kong REITs have the capacity to carry out meaningful development project due to the relative small asset size. In addition to the prevailing volatility of the property market in Hong Kong, it is certainly not a right time to permit REITs to participate or engage in property development.</p> <p>REIT should be a more defensive investment scheme when compared with property companies. As there are already a certain amount of developers in Hong Kong, allowing a REIT to participate or engage in property development will not only cause more competitions between property companies and REITs in the development market. The identities between property companies and REITs will also be blurred.</p>
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Q2	<p>Do you consider that the 10% GAV Cap is set as an appropriate threshold?</p> <p>Ans:</p> <p>In spite of my objection of the proposal, I am also skeptical on using the gross asset value as a basis for calculating the Cap. It will be more prudent to use net asset value as a basis for calculation of the cap for the permissible amount of participation in property development so as to reduce the degree of risk in which the REIT manager and investors will be exposed.</p>
	<p>In conclusion, I am not supportive of the proposal because this will deviate the unique nature and fundamentals of REITs when they first introduced to investors in Hong Kong. In addition, jeopardize existing investors' interest by exposing the REITs to the risks and uncertainties associated with property development.</p>
Q3	<p>Do you have any comments on how the Property Development Costs should be calculated</p> <p>Ans:</p> <p>In general not supportive to the proposal.</p>
Q4	<p>Do you have any comments on the frequency of periodic updates that should be provided to unitholders on the status of property development investments and related activities</p> <p>Ans:</p> <p>In general not supportive to the proposal.</p>
Q5	<p>What additional safeguards do you consider appropriate to ensure there will not be any material change to overall risk profile of a REIT despite the flexibility to engage in a limited extent of property development investments and related activities?</p> <p>Ans:</p> <p>In general not supportive to the proposal and believe there will be no safeguards in this sense.</p>
Q6	<p>Do you have any comments on the proposed scope of the Relevant Investments and the proposed Maximum Cap?</p> <p>Ans:</p> <p>I personally do not agree to the proposed scope of the Relevant Investments and the proposed Maximum Cap. First of all, investment in non-real estate assets requires completely different skillsets, where the REIT manager may need to hire a new team of experts to perform this function. This will cause the REIT manager to incur more expenses for this change of scope.</p> <p>Separately, investment in such non-real estate assets may encourage the REIT to engage in speculative investments, including high risk instruments. REIT manager</p>

	<p>can also tap the equity or debt market to raise proceeds to invest in these risky instruments which may not require unitholders' approval. This will lead to a more risky REIT operation business that may not be beneficial to the existing stakeholders.</p> <p>In terms of the 15% Cap, I believe REIT's primary operations should be focusing on real estate vehicles that generate recurring rental income. The non-real estate assets will undermine this principle of the REITs. Therefore, 15% Cap will be too large of a percentage, provided I do not supportive to the proposal.</p> <p>In addition, the range of investment instruments has been set too wide, deviating the investment scope of the REIT and difficult to classify a well-defined investment proposal in long-run.</p>
Q7	<p>What other safeguards do you consider appropriate to be put in place corresponding to the proposal to allow for the Relevant Investments</p> <p>Ans:</p> <p>I am not supportive to the proposal and therefore believe there will be no safeguards in this sense.</p>

Thank you very much for your attention.

Sylvia Tang