

Date: 25 February 2014

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

Dear Sir,

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 object to the implementation of the two proposals 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?

- 1.1 I do not agree the flexibility to allow for property development investments and related activities should be introduced for REIT as I worry it will raise the risk profile of REITs and reduce its attractiveness as a defensive investment product.
- 1.2 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.
- 1.3 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.
- 1.4 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?

- 2.1 Without prejudice to my 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?

- 6.1 I do not agree to permit a REIT to invest in non-real estate assets as it will expose REIT investors to risks of a more complex nature. It will also increase the burden on the REIT managers which would then require a different type of expertise.
- 6.2 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.
- 6.3 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, i.e. having a well-defined and focused investment strategy.

CONCLUSION

I am not supportive of the two proposals 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. As REITs are defensive investment scheme, 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,



H.F. Chan