

Date: 25 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 a retail investor with more than 20 years of experience investing in stock market. I am writing to provide feedback on the consultation paper on amendments to the Code on Real Estate Investment Trusts ("Consultation Paper") issued by SFC on 27 January 2014. I hereby object to the two Proposals under Consultation Paper and submit my views and concerns are as follows:

Proposal for introducing flexibility in respect of investments in properties under development or engagement in property development activities.

REIT is a more defensive investment scheme as compared to property companies. To permit a REIT to invest in property development will not only subject a REIT to the competition with developers in Hong Kong, but also blur the clear distinctions between the REITs and property companies.

Property market is extremely competitive in Hong Kong. Even smaller developers will need some niche to survive. It is questionable that REITs, without any specialized expertise in development market, would benefit from trying to enter into such a competitive market. Not to mention property development is a very long process during which will expose the REITs to risks including construction risk, time delay risk, legal risk and policy risk etc. There could hardly be any measures enough to safeguard such risks.

Currently, the market has some clear criteria (usually the yield accretion and the long term growth potential of the properties) to assess REITs' proposed investment of income producing property. However, there is no such clear basis and visibility in developing a vacant land or converting an existing building to other uses. In many circumstances, getting land use approvals and negotiation in land premiums will take years before construction can be even started.

Proposal for introducing flexibility in respect of investments in financial instruments

I share the concerns as clearly stated in the Consultation Paper that such flexibility will increase the risk profile of REITs if the REIT manager chose to engage in speculative high risk investments. This could distract REITs from focusing on property management and recurrent income generating activities. REIT managers will be tempted to pursue short term or high risk

returns from investments in financial instruments which may offer higher returns than real estate acquisitions.

Allowing the flexibility for REITs to invest in financial instruments may be welcome by investors who are not satisfied with REITs' sole real estate exposure. These short-term investors will, one way or another, prompt the REIT managers to pursue for higher return through investing in some risky financial instruments. However, these may not be in the interest of REITs' main stream investors who are investing in the defensiveness and long term stability of REITs.

Conclusion

In conclusion, I object to the above proposals under the Consultation Paper. I am worried that REITs will eventually lose its unique characteristics of defensiveness if the proposals were implemented. I am doubtful that REITs will gain any benefit from competing with other developers in Hong Kong. It is also questionable if exposing REITs to all the additional risks and uncertainties is justified. Equity market is highly efficient and any risks and uncertainties will be reflected as a discount in valuation. I hereby urge the Commission to re-consider the appropriateness of such proposals and be mindful not to jeopardize investors' interest by exposing the REITs to the unjustifiable risks and uncertainties.

Thank you very much for your kind attention.