

*Since 1 March 2005, the Manager has undertaken the management of the Properties. However, the Manager has had to manage such Properties under the direction of HKHA and in line with HKHA's existing policies and practices. Therefore, the Manager has not been able to execute its strategy as outlined in this section. The Manager's strategy will be executed following the acquisition of the Properties by The Link REIT.*

## **Objective**

The Manager's key objective for The Link REIT is to provide Unitholders with stable distributions per Unit with the potential for sustainable long-term growth of such distributions. The Manager intends to accomplish this objective through optimising the performance and enhancing the overall quality of a large and geographically diversified portfolio of assets in Hong Kong through implementing various investment and business strategies.

## **Investment Strategy**

The Manager's investment strategy for The Link REIT is to invest in sustainable-income producing properties in Hong Kong which are substantially used for retail and carpark purposes.

In pursuing its investment strategy, the Manager will adhere to the following guidelines:

- invest in properties for the long-term;
- focus on sustainable-income producing properties with the potential for long-term income and capital growth; and
- maintain a large and geographically diversified portfolio of:
  - convenience-based retail properties primarily serving the basic consumer needs of the residents of the Adjacent Housing Estates and other visitors; and
  - carparks serving the tenants and customers of the retail properties, the residents of the surrounding neighbourhoods and other visitors.

Paragraph 7 of the Listing Agreement entered into pursuant to the Listing Rules provides that the Trustee and the Manager (as an operator of a collective investment scheme) undertake, so far as it lies within their respective powers, to procure that the investment policy of The Link REIT, as stated in this Offering Circular, will be adhered to for three years from the date of this Offering Circular, unless otherwise exempted or approved by the SFC. Furthermore, the Manager does not have any intention to issue Units during the six-month period commencing on the Listing Date (other than Units issued as consideration under the Share Purchase Agreement).

## **Business Strategies**

In pursuing its objectives, the Manager will follow a set of key business strategies. These can be broadly categorised into:

- Operational enhancements:
  - pro-actively managing and leasing properties; and
  - enhancing its fund and asset management expertise.
- Strategic initiatives:
  - increasing returns through asset enhancement;
  - expanding The Link REIT's portfolio through selective acquisitions; and
  - optimising The Link REIT's capital structure.

Since assuming management responsibilities for the Properties on 1 March 2005, the Manager has commenced implementing some operational enhancements and asset enhancements for certain

Properties. See the sections headed “Operations of the Manager” and “The Properties and Business — The Properties — Asset Enhancements” in this Offering Circular for details of the Manager’s operational enhancements and asset enhancements, respectively, with respect to the Properties. The Manager will continue to implement operational enhancements following completion of the Global Offering and will commence implementing its strategic initiatives as and when suitable opportunities arise, upon due and careful consideration of factors such as commercial merits, business impact and market conditions and outlook. Whilst the strategies are initially geared to optimising the performance of the portfolio of assets that The Link REIT will hold upon completion of the Global Offering, many of these strategies will apply generally to any assets that may be added to The Link REIT’s portfolio in the future.

## **Operational Enhancements**

### ***Pro-actively Managing and Leasing Properties***

The Manager believes that as the Properties have historically been managed by HKHA based on public sector practices, there is considerable scope for the removal of historical operational constraints and for the implementation of private sector market practices to drive net rental income and profitability over time. Such measures include:

- (a) disciplined and efficient asset management and cost control;
- (b) pro-active retail leasing;
- (c) continual improvement in tenant mix and facility layout;
- (d) improvement in operational efficiency and reduction in operating costs;
- (e) enhancement of carpark operations and profitability;
- (f) delivery of high quality services to tenants and shoppers;
- (g) active marketing and promotion; and
- (h) pursuit of additional revenue opportunities.

### ***(a) Disciplined and Efficient Asset Management and Cost Control***

The Manager has set up a comprehensive asset management platform to facilitate a disciplined and efficient approach in the overall management of the assets. The overall asset management function for the portfolio, headed by the Director of Asset Management, is illustrated in the diagram on page 162 under the section headed “Operations of the Manager” in this Offering Circular. The asset management function will be closely supported by other essential service lines within the Manager including leasing, marketing, development and project management.

The Manager has divided the Properties into eight Districts, which will facilitate the efficient management of the large number of assets. At the same time, the Director of Asset Management, assisted closely by the General Managers and the SAMs, will ensure co-ordination of asset strategies and operations at every level, so as to maximise The Link REIT’s market position and portfolio strengths.

The key responsibilities of the asset management team include:

- formulating strategies and pursuing initiatives to maximise the market potential and long-term profitability of The Link REIT’s assets;
- setting performance targets in terms of revenue and expenses, and actively monitoring key asset performance parameters vis-à-vis market benchmarks;
- actively monitoring key operational issues to ensure smooth and efficient operations;
- actively managing rental arrears to minimise bad debts; and
- setting tenancy guidelines.

The Manager also plans to set up a new specialist team under its asset management division to provide complimentary value-added business advisory services for The Link REIT's tenants, such as advising on shop-front designs and promotion strategies, so as to improve their customers' shopping experiences and consequently such tenants' businesses.

***(b) Pro-active Retail Leasing***

The Manager believes there is room to improve the average occupancy rate of the Retail Facilities from its current prevailing level (which stood at 91.4% as at 31 July 2005) and minimise vacancies on an on going basis. The Manager will endeavour to achieve this by pro-actively managing Lease renewals, securing new tenants and minimising void periods arising from non-renewals and early terminations of Leases. Following the completion of the Global Offering, the Manager will not be constrained by HKHA's previous requirement to lease vacant shops by way of a formal tendering process and to pre-determined retail trade categories. The additional flexibility under the Manager's leasing strategy in dealing with existing and potential future vacancies as well as ongoing Lease renewals will assist the Manager in achieving its objective of maximising the occupancy of the Retail Facilities. Specific measures that the Manager intends to put in place to achieve and maintain high occupancy levels include:

- categorising the Retail Facilities into different segments (such as retail, cooked food stores, markets and others) and formulating specific strategies to reduce vacancies in each segment;
- advancing renewal negotiations with tenants whose Leases are approaching expiry;
- advancing sourcing of new tenants;
- strengthening relationships with retailers in general to build up a strong base of prospective tenants; and
- actively monitoring rental arrears and other aspects of tenant performance.

In addition, upon the expiry or termination of existing Leases, the Manager believes there will be opportunities to pursue various initiatives to improve the overall profitability of the Properties. These include:

- introducing more suitable retailers or trades; and
- securing higher rent if existing Leases which are about to terminate are at below market rent.

***(c) Continual Improvement in Tenant Mix and Facility Layout***

Historically, the trade mix at the Retail Facilities was largely pre-determined by HKHA based on public sector considerations with limited flexibility to adjust to the differences in shopper profiles or trade areas, or changes in consumer trends and needs over time.

Going forward, the Manager intends to monitor actively and research relevant market factors and formulate detailed and responsive retail plans to ensure that the tenant profile and trade mix within each centre are optimised on an on going basis. This will assist the centres to maintain their relevance to the shopper base and remain competitive in terms of attracting shopper traffic and maximising tenants' sales.

With regards to facility layout, the Manager similarly intends to review regularly the layouts of the Properties and where appropriate make improvements to them so as to maximise the rental potential and shopping environment at the centres. Such initiatives are expected to include:

- reconfiguring unit sizes and layout to maximise rental potential or to improve shopfront visibility and shopper circulation;
- relocating tenants if they are not suitably located within the centre; and

- systemically clustering trades within larger centres according to trade types, in order to enhance shoppers' ease of navigation and their overall shopping experience.

#### ***(d) Improvement in Operational Efficiency and Reduction in Operating Costs***

Given that the Properties have historically been managed in accordance with public sector practices, the Manager believes that opportunities exist to introduce new initiatives aimed at improving operational efficiency and reducing operating costs.

Plans which the Manager intends to implement include:

- actively managing property management costs and other outgoings based on competitive market benchmarks;
- leveraging The Link REIT's large portfolio size for cost savings through the bulk sourcing and purchase of services and supplies;
- adopting enhanced IT solutions to enable more efficient internal functions and the delivery of property management services such as automated rental collection;
- actively reviewing the portfolio's overall energy needs, consumption patterns and the operational efficiency of equipment and the Properties with a view to implementing measures to save energy costs without compromising the smooth operation of the Properties; and
- giving Carpark Operators greater flexibility in their deployment of staff resources as well as consolidating the number of operators so as to provide the remaining operators with greater economies of scale, but without compromising service standards.

The Manager intends to explore the progressive internalisation of the management of a limited number of the larger District Centres in each of the eight Districts with the aim, through its direct property management, of improving operational efficiency and reducing operating costs and value leakage. For the remaining Retail Facilities, the Manager will also explore the progressive re-modelling of the form of PMA Contracts to remove the supervision headcount given that the Manager's centre management staff will perform the role of supervising the staff under the PMA Contracts going forward.

For further details, see the section headed "Manager's Discussion and Analysis of Future Operations" in this Offering Circular.

#### ***(e) Enhancement of Carpark Operations and Profitability***

The Carpark Facilities are restricted by the requirements of the outline zoning plan and the Lease conditions such that they can only be leased to residents of the relevant Housing Estates. Planning approval from the Town Planning Board has been obtained to relax such restriction and increase the flexibility for letting carpark spaces to non-residents at 145 out of the 178 Carpark Facilities. In respect of these 145 Carpark Facilities, 21 of them would also require a waiver from the Lands Department in respect of the user restriction contained in the Government Leases. 18 such waivers have been obtained from the Lands Department whilst three are still under the process of application. Going forward, the Manager also will not be subject to the existing public sector practices and restrictions on setting carpark rates or allocating spaces between hourly and monthly parking. For further information, see the section headed "The Properties and Business — Details of the Carpark Facilities — Planning Approvals and Government Lease Waivers" in this Offering Circular.

In light of the above, the Manager intends to adjust carpark rates and allocate carpark spaces between hourly and monthly parking according to market conditions and demand. The Manager believes this will have a positive impact on future carpark demand and revenue. The Manager also

intends to incentivise Carpark Operators to maximise the profitability of the Carpark Facilities through aligning their interests more closely with those of The Link REIT by restructuring their remuneration arrangements as and when the relevant agreements expire.

The Manager also plans to implement automated access and payment collection systems in the Carpark Facilities, the objectives of which are to establish pro-active control over income from the Carpark Facilities, to set up a management information system on carpark utilisation, to make enhanced use of IT solutions with a view to improving operational efficiency, and to provide improved services to carpark users.

The Manager is currently considering alternative means of managing some of the carparks, including the internalisation of the management of some of the carparks, following implementation of the carpark automated access and payment collection systems. In the meantime, HKHA has extended or will extend expiring Carpark Operator Agreements to the middle of 2006 with a break clause for early termination and a clause enabling the Manager to install the equipment and implement the automation system during the contract period. Such extensions will also allow the Manager sufficient time to install the required equipment.

In the longer term, the Manager intends to consolidate the number of Carpark Operators for better control of the management of the Carpark Facilities and to achieve cost savings.

#### ***(f) Delivery of High Quality Services to Tenants and Shoppers***

The Manager believes that the ability of the assets of The Link REIT to attract and retain tenants and shoppers will be highly dependent on the responsiveness and effectiveness of the management team in servicing their needs.

The Manager intends to be responsive to letting enquiries from prospective new tenants and to maintain strong relationships with existing tenants through providing the SAMs with decision-making authority to manage the facilities, and making them accountable for the performance of the assets within their respective Districts. The Manager's maintenance team will ensure that any maintenance issues are addressed in a timely manner, with minimal disruption to tenants' trading activities and shoppers' experience.

The Manager will set high standards for the property management services provided to the Retail Facilities. To this end it will regularly evaluate the performance of the external property managers based on key performance standards.

#### ***(g) Active Marketing and Promotion***

The Manager believes that the marketing and promotion of the Retail Facilities is another area that can be enhanced to bring significant benefits. Since assuming the management responsibilities for the Properties in March 2005, the Manager has implemented some promotion and marketing activities in a number of the Retail Facilities, including lucky draws, new brand/product exhibitions, art and cultural series, as well as festival related promotion events. The objective of these activities has been to increase the shopper traffic at the Retail Facilities and, in some cases, generate revenue from the use of promotion venues. Going forward, the Manager will look to enhance the marketing and promotion of the Retail Facilities and develop marketing plans for the portfolio and also for the individual larger retail centres, taking into account factors such as trade mix, customer base, market characteristics and operational conditions of the individual properties. These plans will address the Retail Facilities' needs with regards to maximising shopper traffic and tenant sales.

The Manager will consider the introduction of a promotion levy for new lease contracts that will allow the Manager to share the cost of the promotion of the retail centres with its tenants. This is intended to reflect The Link REIT's business partnership with tenants and the mutual benefit to be derived therefrom and to encourage the active marketing and promotion of the centres.

The marketing programmes that the Manager envisages include shoppers' events such as sales and promotions, community and charity events, and advertising campaigns through direct mail, newspapers, television and radio.

Events may either be organised in-house or in partnership with external parties such as public institutions, schools, community groups, industry groups, retailers and other commercial and non-commercial entities. Such initiatives will also help the Retail Facilities strengthen their market positions and reach out to the community.

#### ***(h) Pursuit of Additional Revenue Opportunities***

The Manager also believes that marketing and promotional events by tenants can be an important source of income, such as through the leasing of atrium spaces for sales and promotions of products and services and sponsorships, and will actively pursue such opportunities.

Other income generating initiatives that the Manager intends to pursue include:

- casual leasing of temporary kiosks and pushcarts in open spaces in outdoor and common areas of the malls;
- leasing of kiosks and other means of display or advertisement to event participants and retailers during marketing events;
- creating advertisement panels, billboards and other similar income generating initiatives at the Retail Facilities and the Carpark Facilities; and
- generating income by renting space for vending machines, ATMs and public telephones.

#### ***Enhancing Fund Management and Asset Management Expertise***

The Manager is committed to being an effective and high quality provider of fund, asset and property management services to The Link REIT.

Pursuant to the Co-operation Agreement, the Manager is able to access the knowledge and expertise of the Strategic Partner in relation to, among other things, fund and portfolio management, asset and property management, corporate governance and internal control procedures. The Manager is working closely with the Strategic Partner to build the Manager's fund and property management business. For further details of the Strategic Partner and the Co-operation Agreement, see the section headed "Material Contracts and Other Documents and Information" in this Offering Circular.

The Manager will also provide training to its staff and external service providers to foster a proactive and high quality service culture. Their performance will be closely monitored against international best practices to ensure and sustain high quality services to the tenants and customers of the Properties.

### **Strategic Initiatives**

#### ***Increasing Returns through Asset Enhancement***

The Manager believes that there is scope for physical and other improvements that will create additional value for the Properties, although these are expected to be more prevalent in the larger Properties. These enhancement opportunities include:

- creation of additional IFA within existing centres via the reconfiguration of layout, extension of lease lines and creation of new shop units at excessive or non-essential common areas within the centres;
- improvement in connectivity and accessibility and thereby improvement in the attractiveness and rental potential of the Properties;
- reconfiguration of building and shop space layout to improve building efficiency and rental potential; and
- optimisation of trade mix and trade locations within the Retail Facilities to enhance the shopper experience.



In addition to the opportunities listed above, the Manager believes there are also other smaller-scale but effective refurbishment opportunities across the portfolio. These include:

- improvement of interior and exterior signage, lighting, restroom facilities and other aesthetic and environmental aspects of the Properties; and
- creation of shopper facilities such as children's play areas, landscaped plazas and rest areas to enhance the ability of the Properties to attract shoppers.

HKHA and the Manager are jointly undertaking asset enhancement projects at Tsz Wan Shan shopping centre, Hau Tak shopping centre and Lung Cheung mall. These projects are currently in progress. In addition, a number of asset enhancement projects for selected Retail Facilities are planned to commence over the next three to five years. See the section headed "The Properties and Business — The Properties — Asset Enhancements" in this Offering Circular for further details of such projects.

As a guiding principle, the Manager will, prior to undertaking any asset enhancement initiative, conduct detailed technical, market and financial studies, to ensure the feasibility and commercial value of such initiative.

The Property Consultant was commissioned to conduct detailed studies of the asset enhancement potential of eight shopping centres. These eight shopping centres were chosen by the Property Consultant and the Manager because, as stated in the Property Consultant's letter in relation to its asset enhancement study set out in Appendix VII to this Offering Circular, they represent the higher value shopping centres and are mostly ranked within the top 30 Retail Facilities in terms of their total annual revenue generation. As such, they are generally among the larger shopping centres within the Retail Facilities. See the section headed "The Properties and Business — The Properties — Asset Enhancements" in this Offering Circular as well as the "Letter from the Property Consultant in relation to its Asset Enhancement Study" set out in Appendix VII to this Offering Circular. The Manager will conduct an appropriate detailed study prior to making a decision to implement any of the enhancements referred to in the Property Consultant's study. For further information, see the section headed "The Properties and Business — The Properties — Asset Enhancements" in this Offering Circular.

### ***Expanding The Link REIT's Portfolio through Selective Acquisitions***

The Manager intends to explore actively acquisition opportunities that will add value to The Link REIT's portfolio and improve returns to Unitholders.

Key issues that the Manager will consider when evaluating acquisition opportunities include:

- consistency with the Manager's investment strategy;
- ability to provide long-term yield-accretion to Unitholders;
- attractiveness of the property's acquisition price vis-à-vis its cash flows, current performance and sustainable future potential;
- economic conditions and the market outlook, for example, to raise financing for the acquisition;
- geographical diversification or expansion enabling The Link REIT to access tenant and shopper demand in new trade areas;
- ability of the target property to complement the existing portfolio and strengthen The Link REIT's market share vis-à-vis competition in a trade area; and
- opportunities to enhance the target property to increase investment returns and create value.

In this regard, HKHA has agreed to grant a right of first refusal for The Link REIT to acquire certain of HKHA's remaining as well as future retail and carpark developments disposed of during the 10-year period commencing from the Listing Date. The Manager has been advised by HKHA that there are, in aggregate, approximately 70,000 sq.m. of retail facilities and approximately 12,000 carpark

spaces in HKHA's remaining and planned retail and carpark facilities. These figures have included those new retail and carpark facilities planned for the next five years based on the latest production programme of HKHA. See the section headed "Material Contracts and Other Documents and Information — Agreements relating to the Acquisition of the Properties — Deed of Right of First Refusal" in this Offering Circular for further details.

In addition to HKHA's properties, the Manager will also consider other acquisition opportunities such as retail facilities, carparks and markets owned and operated by other entities in Hong Kong.

### ***Optimising The Link REIT's Capital Structure***

The Manager is focused on optimising the capital structure of The Link REIT within the requirements of the REIT Code with the aim of maximising the returns of the portfolio and distributions to Unitholders, while maintaining appropriate levels of financial prudence.

Gearing of The Link REIT (total borrowings to total gross asset value) is currently capped at 45% under the REIT Code. On the Listing Date, The Link REIT will have a gearing of 36%. Upon completion of the Global Offering, the Manager intends to consider different debt refinancing options including bilateral loans, syndicated loans, corporate bonds, commercial mortgage-backed securities and medium-term notes having regard to pricing and maturity profile. The Manager also intends to adopt a hedging strategy to manage the risks associated with interest rate fluctuations.

The Manager intends to use a combination of debt and equity to fund future acquisitions and property enhancements.

### **Priorities in Implementation**

In terms of the Manager's prioritisation of its near-term strategic initiatives, within the first 12 months following completion of the Global Offering, the Manager will focus on the following:

- implementing a range of minor improvements in the shopping centres by way of improved exterior and interior signage, lighting and shop directories;
- identifying and installing suitable equipment and systems in the Carpark Facilities that allow automated access and payment collection to achieve better operational efficiency;
- installing energy-saving equipment in the Carpark Facilities;
- pursuing opportunities to increase revenue through a focus on letting existing vacant areas, the leasing out of promotional areas and the introduction of mobile kiosks to the centres;
- looking to commence negotiations on remuneration structure and other contract terms in order to better align the interests of Carpark Operators with those of The Link REIT;
- enhancing the training of staff (including the staff of external service providers) and level of service provided at each of the Retail Facilities, including the uniforming of staff and a greater focus on customer service;
- looking to re-model the external property management agreements, where appropriate, renegotiate fees and consolidate the number of external property managers as and when existing contracts expire; and
- evaluating options for longer term debt financing. The Manager intends to refinance existing borrowings with longer term bank debt and may consider other financing options including bilateral loans, syndicated loans, corporate bonds, commercial mortgage-backed securities and medium-term notes.

The Manager's medium and longer term strategies include the identification, planning and execution of asset enhancement opportunities across the portfolio. Asset enhancement opportunities that will require the investment of additional capital will be prioritised and progressively implemented subject to disciplined investment and financial analysis and investment approval process. In the



medium term, the Manager will also give consideration to acquiring additional assets that are consistent with The Link REIT's investment strategy. In this regard, HKHA has agreed to grant a right of first refusal for The Link REIT to acquire certain of HKHA's remaining and planned retail and carpark developments disposed of during the 10-year period commencing from the Listing Date. See the section headed "Material Contracts and Other Documents and Information" in this Offering Circular for further details. However, the Manager does not intend to pursue actively acquisitions of assets in the 12 months immediately following completion of the Global Offering as its primary focus will be on controlling the costs and improving the operational efficiency of the Properties.