The following discussion and the selected financial and operating information set forth below should be read in conjunction with the Audited Financial Statements of the RC Operations set forth in Appendix I to this Offering Circular, which have been prepared in accordance with HKFRS. Statements contained in this section that are not historical facts may be forward looking statements. Such forward looking statements are subject to certain risks, uncertainties and assumptions which could cause actual results to differ materially from those forecast and projected. Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Manager, the Trustee, the Underwriters or any other person. Investors are cautioned not to place undue reliance on these forward looking statements that speak only as of the date hereof.

Investors should note, when reviewing the Audited Financial Statements, that during the Relevant Period, the number of RC Operations, the area comprised in the Retail IFA and the total number of carpark spaces in the Carpark Operations increased in each successive financial period.

Introduction

For the purposes of the Divestment and the listing of the Units on the Hong Kong Stock Exchange, HKHA has prepared the Audited Financial Statements to present the combined results and statements of cash flows of the RC Operations for the three years ended 31 March 2005 and the four-month periods ended 31 July 2004 and 31 July 2005, respectively, and the financial position of the RC Operations as at 31 March 2003, 2004 and 2005 and 31 July 2005.

The operational practices of the Manager in respect of the Properties are expected to differ from those followed by HKHA, as HKHA generally has not managed the RC Operations in line with private sector market practice. Changes in operational practices will affect the future financial results of The Link REIT — see the sections headed "Strategy" and "Manager's Discussion and Analysis of Future Operations" in this Offering Circular. The historical Audited Financial Statements prepared by HKHA and a discussion and analysis of financial conditions are set out herein for the purposes of providing investors with an indication of the past performance of the RC Operations whilst managed under HKHA. Neither this information nor the information in the section headed "Manager's Discussion and Analysis of Future Operations" in this Offering Circular should be relied upon as an indication of the future performance of the Properties when operated under the Manager.

Recent Developments

The Manager was incorporated as a wholly-owned subsidiary of HKHA in February 2004 and began developing and implementing its business plan and recruiting its employees in April 2004. The Manager was established to assume gradually the day-to-day management of the Properties (which are divided into eight Districts). In October 2004, the Manager's staff began working in parallel with HKHA's staff in connection with the management of the Properties comprised within two of the Districts, namely: (i) Kowloon Central; and (ii) Kowloon East, Hong Kong Island. Since 1 March 2005, the Properties (including those comprised within the remaining six Districts) have been managed by the Manager. The Manager, which had 272 employees as at the Latest Practicable Date, serves as a service provider to HKHA under the Management Agreement. In addition to being responsible for daily repair and maintenance activities, the Manager has completed a range of minor asset enhancements at certain of the Properties, including the improvement of signage and lighting, repairs of toilets, repainting works, retrofitting of air-conditioners in markets and establishment of customer service counters. See the section headed "Operations of the Manager" in this Offering Circular for further details.

The transition of the management of the Properties from HKHA to the Manager that took place in March 2005 was relatively smooth, and since then the Manager has not faced any major operational challenges. However, the Manager has not been able to execute the strategy set out in the offering circular of the Former The Link REIT that was issued in November 2004. As a wholly-owned subsidiary of HKHA, the Manager is currently required to operate the Properties as prescribed by HKHA's existing policies and practices and to obtain consent from HKHA before making any major operating decisions. In addition, the Manager has had to honour policies and commitments that HKHA had previously made to the tenants of the Properties. These policies have had a negative impact on the historical financial results of the RC Operations. See the paragraph headed "HKHA Policies" and the sections headed "Operations of the Manager" and "The Properties and Business" in this Offering Circular. Going forward, however, the Manager will not be required to follow these policies other than as described in the section headed "Manager's Discussion and Analysis of Future Operations — Background" in this Offering Circular.

The RC Operations

As at the date hereof, the portfolio comprises 180 properties, of which 149 are integrated retail and carpark facilities, two are standalone retail facilities and 29 are standalone carpark facilities. As at 31 July 2005, the portfolio had an IFA of approximately 960,000 sq.m. of retail space and around 79,000 carpark spaces. For the years ended 31 March 2003, 2004 and 2005, the RC Operations generated HK$3,769 million, HK$3,498 million and HK$3,696 million, respectively, in total revenues. For the years ended 31 March 2003, 2004 and 2005, 66.1%, 65.5% and 68.3%, respectively, of the total revenues generated by the RC Operations were generated by the rental income from the Retail Operations whilst 26.9%, 27.0% and 25.4%, respectively, were generated from the gross receipts from the Carpark Operations. The remaining 7.0%, 7.5% and 6.3% of total revenues, respectively, were attributable to other revenues.

The following table sets out summary information on the RC Operations for the periods indicated:

	As at 31 March			As at 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
Number of RC Operations					
Retail Operations only	2	2	2	2	2
Carpark Operations only	28	29	29	29	29
Integrated Retail and Carpark Operations	149	149	149	149	149
Total	**179**	**180**	**180**	**180**	**180**

	As at 31 March			As at 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
Retail IFA (sq.m.)	925,963	944,378	952,187	946,118	960,641
				As at(1)	
				30 June 2004	**31 July 2005**
Carpark spaces (number)					
Monthly	66,810	68,165	68,756	68,529	68,763
Hourly	11,047	10,728	10,628	10,444	10,677
Total Carpark Spaces	**77,857**	**78,893**	**79,384**	**78,973**	**79,440**

Note:

(1) In this Offering Circular, the most up to date operational data in respect of the Carpark Operations has been provided as at 31 July 2005. However, the number of carparking spaces within the Carpark Operations has historically been calculated every quarter (as at the end of March, June, September and December). Therefore, for the purposes of a year-on-year comparison, the number of carparking spaces within the Carpark Operations as at 30 June 2004 has been provided. There was no material change in the number of carparking spaces during the periods between: (i) 30 June and 31 July 2004; and (ii) 30 June and 31 July 2005.

Key Items in the Profit and Loss Account

Total Revenues

The total revenues of the RC Operations comprised rental income from the Retail Operations, gross receipts from the Carpark Operations and other revenues.

The following table sets out the total revenues for the RC Operations for the three years ended 31 March 2003, 2004 and 2005 and the four-month periods ended 31 July 2004 and 31 July 2005:

	Year ended 31 March			Four months ended 31 July	
	2003	**2004**	**2005**	**2004**	**2005**
	(HK$'M)	**(HK$'M)**	**(HK$'M)**	**(HK$'M)**	**(HK$'M)**
Total Revenues:					
Rental income from the Retail Operations	2,491	2,291	2,525	820	857
Gross receipts from the Carpark Operations	1,012	946	938	312	289
Other revenues	266	261	233	77	76
Total	3,769	3,498	3,696	1,209	1,222

Rental income from the Retail Operations. Rental income from the Retail Operations comprised the amount paid by tenants of the Retail Operations pursuant to Leases. Rents payable under such Leases have generally been fixed for the duration of the terms. On expiry of Leases, tenants were historically able to request for a renewal of the tenancies at rents determined by taking into account both prevailing market rents and rents payable at HKHA's comparable properties. Leases for the Retail Operations did not generally provide for staged rent reviews during their terms, although a limited number of Leases for larger premises or with longer lease terms, such as for department stores, supermarkets, large restaurants and banks, have provided for staged rent increases fixed in advance. In addition to fixed rent, turnover rents have been entered into with certain tenants, such as supermarkets and restaurants. Turnover rents contributed 0.8%, 0.7% and 0.9% of rental income for the years ended 31 March 2003, 2004 and 2005, respectively.

Commencing from the Listing Date, certain office space which was not previously available for commercial letting purposes will be made available to HKHA pursuant to the Leaseback and Licence Agreement. Rent will be payable by HKHA to PropCo in respect of such office space. See the section headed "The Properties and Business — The Properties — Details of the Retail Facilities — Top 10 Tenants" for further details.

Gross receipts from the Carpark Operations. Gross receipts from the Carpark Operations comprised income generated from hourly and monthly carpark charges levied at the Carpark Operations. Carpark charges have historically been subject to annual reviews by HKHA on 1 January of each year. For monthly parking, HKHA has determined the charges based on the types of vehicles, type of carpark spaces, the location of the Carpark Operations and other factors. For hourly parking, the rates have been set by HKHA. Monthly parking and hourly parking accounted for 74.6% and 25.4%, respectively, of total gross carpark receipts from the Carpark Operations for the year ended 31 March 2005. With effect from 1 July 2003, Carpark Operators were authorised, at their discretion, to set hourly parking charges at rates which are no more than 50% above the then stipulated rates.

Other revenues. Other revenues principally comprised air-conditioning fees charged to tenants and to a lesser extent income from forfeiture of tender deposits, income from early termination of tenancy agreements without break clauses, interest on rent in arrears as well as other miscellaneous income. From the date of the next review of air-conditioning charges for each Property from November 2002, the general levy for the use of air-conditioning systems has no longer been charged to tenants. Consequently, air-conditioning fees now only comprise electricity charges and maintenance costs, which are charged to tenants at fixed rates as stated in their individual tenancy agreements.

Direct Outgoings

The RC Operations' direct outgoings consisted of charges in respect of: (i) staff costs; (ii) property managers' fees and related expenses; (iii) utilities; (iv) cleansing and security; (v) repairs and maintenance; (vi) Government rent and rates; (vii) estate promotion and marketing expenses; and (viii) other direct outgoings.

The following table sets out details of the direct outgoings of the RC Operations for the three years ended 31 March 2003, 2004 and 2005 and the four-month periods ended 31 July 2004 and 31 July 2005:

	Year ended 31 March			Four months ended 31 July	
	2003	2004	2005	2004	2005
	(HK$'M)	(HK$'M)	(HK$'M)	(HK$'M)	(HK$'M)
Direct staff costs					
Estate management	135	116	101	26	29
Maintenance and improvement	173	163	81	27	19
Rent valuation	44	37	19	7	4
Letting	64	52	33	10	10
	416	368	234	70	62
Other direct staff costs	95	36	37	22	19
Less: staff costs capitalised under investment properties	(27)	(22)	(7)	(3)	—
Staff costs	484	382	264	89	81
Property managers' fees and related expenses	401	409	405	131	133
Utilities	350	355	362	136	136
Cleansing and security	211	235	252	79	81
Repairs and maintenance	230	210	162	51	59
Government rent and rates	72	78	69	22	24
Estate promotion and marketing expenses	99	131	140	40	4
Other direct outgoings	67	75	121	25	31
Total	1,914	1,875	1,775	573	549

Staff costs. Staff costs comprised direct staff costs and other direct staff costs, less staff costs capitalised under investment properties. Direct staff costs comprised: (i) salaries and benefits (such as pension benefits and allowances) paid to the Manager's staff; and (ii) salaries and benefits (such as pension benefits and allowances) paid to CPSD staff who discharged estate management, maintenance and improvement, rent valuation and letting functions. The other direct staff costs related to: (i) staff from HKHA business divisions outside the CPSD, where such staff were primarily engaged in performing estate management and maintenance and improvement-related services; and (ii) a share of HKHA staff costs (excluding CPSD staff costs) allocated to the RC Operations, based on a predetermined cost allocation basis. In determining such cost allocation, account has been taken of actual time spent by relevant staff in connection with the RC Operations and direct attributable personnel emoluments. Staff costs capitalised under investment properties were costs of HKHA staff involved in improvement projects, which were capitalised as part of the project costs.

Property managers' fees and related expenses. Property managers' fees and related expenses comprised fees and expenses payable under third-party contracts, being PSC Contracts, MBO Contracts, PMA Contracts and Carpark Operator Agreements. As at 31 March 2005, 167 such contracts had been entered into with a total of 17 contractors under PMA Contracts, 15 contractors under PSC Contracts, six contractors under MBO Contracts and 11 contractors under Carpark Operator Agreements.

PMAs have been entitled to claim a specified fixed monthly property managers' remuneration together with other fixed items of expense (principally staff costs, administration costs and revenue collection costs) as proposed by them at the tendering stage and stipulated in the relevant PMA Contract. The relative amount of the PMA's remuneration consequently varied between PMA Contracts, depending on the tender terms of individual PMAs. Monthly variable expenses, mainly comprising cleansing, security, provision for repairs and maintenance, were also reimbursed to PMAs.

The reimbursed amount payable is the lower of the actual expenses incurred or the approved monthly budget. Such reimbursed expenses are included within the corresponding line items in the Audited Financial Statements of the RC Operations (as discussed below).

Under PSC Contracts and MBO Contracts, the PSCs and MBOs have been paid lump-sum monthly service fees inclusive of monthly variable expenses incurred. However, for HKHA's accounting purposes such monthly service fees were broken down into property managers' remuneration (included in the Audited Financial Statements as property managers' fees and related expenses) and reimbursement of monthly variable expenses in relation to cleansing and security, and repairs and maintenance (included in the Audited Financial Statements within the corresponding line items). In addition, project management fees were also paid to the PSCs and MBOs for maintenance and improvement works as and when required. These project management fees were determined based on an agreed percentage of the actual cost of such works.

Utilities. Utilities expenses comprised electricity and water and sewerage charges. Electricity costs comprised mainly air-conditioning costs.

Cleansing and security. Cleansing and security expenses comprised expenses paid to third parties in relation to the provision of cleansing and security services to the RC Operations. As referred to above, in the Audited Financial Statements, this line item also includes cleansing and security costs reimbursed under PMA Contracts, and amounts in respect of such costs as regards PSC Contracts and MBO Contracts.

Repairs and maintenance. Repairs and maintenance expenses comprised costs for repairs and maintenance of the RC Operations. Maintenance works included daily building works and building services, such as electrical engineering and installations works, as well as minor renovations. These expenses also included repairs and maintenance expenses reimbursed under PMA Contracts and amounts in respect of such costs associated with PSC Contracts and MBO Contracts.

Government rent and rates. Government rent was paid by HKHA in respect of the List 1 Properties within the RC Operations. In respect of the List 1 Properties, Government Leases that were granted before 27 May 1985 have been subject to payment of a nominal annual rent. For those Government Leases that were automatically extended up to 30 June 2047 upon expiry of their original term without payment of an additional premium, they are subject to payment of an annual rent equivalent to 3% of the rateable value of the relevant List 1 Property. Government Leases which were granted after 27 May 1985 have been subject to payment of a nominal annual rent (if demanded) up to 30 June 1997, and thereafter an annual rent equivalent to 3% of the applicable rateable value of the relevant List 1 Property. Government rates comprised rates payable by HKHA in respect of the Carpark Operations and untenanted retail spaces and have been charged at 5% of the applicable rateable value of the relevant Carpark Operation or untenanted retail space. Government rates in respect of rented retail spaces have been recovered by HKHA from the tenants.

Estate promotion and marketing expenses. Estate promotion and marketing expenses comprised promotion and advertising expenses, including free carparking arrangements offered to shoppers.

Other direct outgoings. Other direct outgoings comprised insurance and other expenses such as stationery, landscaping works and plants, bad debts, management fees paid in respect of the RC Operations' share of the estate common area costs of TPS Estates and HOS Courts, and other miscellaneous or non-recurring expenses.

Other Expenses

General and administrative expenses. General and administrative expenses comprised headquarter staff costs and central administration overheads. Headquarter staff costs included staff costs relating to finance, administration and IT support. Central administration overheads included allocated costs for corporate support, repairs and maintenance, depreciation and other miscellaneous expenditure. Such costs were separate from, and additional to, costs included in the staff costs line item in the Audited Financial Statements.

(Decrease)/increase in fair value of investment properties

As set out in Appendix I to this Offering Circular, HKAS 40 has been applied retrospectively to the accounting policies of the RC Operations from 1 April 2002. Investment properties are measured initially at cost and are stated at their fair values at each balance sheet date thereafter. Changes in fair values are recognised in the profit and loss account. The adoption of HKAS 40 has been applied retrospectively to the prior periods presented in this Offering Circular. See the risk factor headed "Decreases in property values as a result of the annual revaluation of the Properties could result in decreases in the annual consolidated net profit of The Link REIT and its Total Distributable Income for that year" and the accounting policy for investment properties as set out in Appendix I to this Offering Circular for further details. See also the footnote to the balance sheets of the RC Operations on page 70.

Principal Accounting Policies

For the principal accounting policies in relation to the RC Operations, please refer to the Audited Financial Statements of the RC Operations set out in Appendix I to this Offering Circular.

HKHA Policies

Under HKHA, the RC Operations have been influenced by public policy and socio-economic considerations. Such policies and considerations are evident, for example, in HKHA's implementation of rental concessions and rental reassessments which may not have been implemented had the RC Operations been operated in accordance with private sector market practice.

The following table provides a brief summary of the key policies implemented by HKHA during the Relevant Periods that affected the RC Operations. PropCo has agreed with HKHA to continue to honour certain of these policies for certain periods of time following the Listing Date. See the section headed "Material Contracts and Other Documents and Information" in this Offering Circular.

Key policies	Effective period	HKHA actions	Financial impact
Rental concessions during the SARS epidemic	Apr 2003 to Jun 2003	• Granted three-month rental concessions of 50% and 30% to most of the retail tenants in the catering and non-catering trades, respectively • Waived air-conditioning charges for certain catering trades	• Reduction in rental income and other revenues from Retail Operations
Carpark charges reduction and rebates	Jan 2003 until reviewed after the Listing Date	• Reduced monthly carpark charges for all regions by approximately 10% • Granted rebates and additional relief to Carpark Operators to offset the reduction in their gross receipts	• Reduction in gross receipts from Carpark Operations • Increase in the Carpark Operators' fees under the item "Property managers' fees and related expenses"

Key policies	Effective period	HKHA actions	Financial impact
Concessionary parking arrangements	Apr 2002 to Mar 2005	• Offered free parking to shoppers to increase retail traffic	• Increase in estate promotion and marketing expenses • Increase in the external property managers' fees and related expenses • Increase in gross receipts from the Carpark Operations
Retail rental reduction	Nov 2001 to Oct 2004 (subsequently extended to Oct 2005 for long-term leases)	• Offered rent reduction at a weighted average rate of 19% to eligible retail tenants	• Reduction in rental income from Retail Operations
Rent relief due to slow intake at certain Housing Estates	Commenced in Sept 2001	• Offered rental relief to retail tenants who were affected by slow intake in the Adjacent Housing Estates due to factors such as HOS Courts sales moratorium and delay in construction programmes	• Reduction in rental income from Retail Operations

Rental Concessions during the SARS Epidemic

The SARS epidemic in Hong Kong and other areas (including the PRC) in 2003 had a significant impact on the overall economy of Hong Kong. Among other things, overall domestic consumer demand in Hong Kong was significantly weakened and there was a significant reduction in the number of inbound tourist arrivals in Hong Kong. According to the Census and Statistics Department of Hong Kong, retail sales in Hong Kong decreased by 15.2%, 11.1% and 6.5% year-on-year during the months of the SARS epidemic from April to June 2003, respectively. Total retail sales in April 2003 were HK$12.7 billion, the lowest level for April during the years 2000 to 2004. This was 15.3% lower than HK$15.0 billion retail sales in April 2002 and 19.1% lower than the retail sales in April 2004 of HK$15.7 billion.

In light of the difficult economic conditions faced by the retail sector as a result of the SARS epidemic, HKHA offered rental concessions to all tenants of the Retail Operations (except for supermarkets and superstores) for a three-month period from April 2003 to June 2003. Rent concessions equivalent to 50% and 30% of rent payable were granted to tenants in the catering trades and non-catering trades, respectively. HKHA also agreed to waive air-conditioning charges for restaurants temporarily closed during that period. HKHA estimated a loss in revenue from the three-month concession of approximately HK$200 million.

Carpark Charges Reduction and Rebates

Due to a general trend of decreasing utilisation rates for HKHA's carpark facilities (including the Carpark Operations) over the three-year period to 31 December 2002, and following a review of the rates charged in the private sector, HKHA decided to reduce its monthly carpark charges by 10% for the calendar year 2003 (subsequent reviews have been conducted but have not resulted in any increases in the carpark charges from the 2003 rates). HKHA believed that this reduction would increase utilisation of its carpark facilities. To mitigate the impact of the decrease in gross receipts on the Carpark Operators, HKHA agreed to grant rebates to Carpark Operators to compensate them for the reduced charges. The current carpark charges rebates will continue to apply following the Listing Date, until such charges are reviewed. It is the Manager's intention to discontinue the policy of providing rebates to Carpark Operators as soon as practicable.

Concessionary Parking Arrangements

To help enhance the competitiveness of its shopping centres and to draw more business to its retail tenants, HKHA introduced a scheme on 1 April 2002 to allow free carparking for shoppers. This scheme was extended on four occasions through to its final expiry on 31 March 2005. The initial scheme allowed one hour free parking for shoppers spending HK$200 or more in shops in the RC Operations. In August 2002, the scheme was extended and revised to permit one hour of free parking for shoppers at the RC Operations spending HK$100 or more but less than HK$200 and two hours of free parking for shoppers spending HK$200 or more. As the free parking scheme reduced the gross receipts of Carpark Operators, they were compensated by HKHA for the foregone income. The accounting treatment of the concessionary parking arrangements was as follows: (i) the gross receipts from the Carpark Operations' figure was grossed up to include an amount equal to the reduction in the receipts from the Carpark Operations resulting from the concessionary parking arrangements; (ii) a corresponding amount was expensed as estate promotion and marketing expenses; and (iii) the amount of compensation paid by HKHA to the Carpark Operators was expensed as 'property managers' fees and related expenses'.

A number of promotional activities were put into place at the shopping centres following the cessation of the free parking scheme at the end of March 2005. Such activities included offering a 20% discount to shop tenants for bulk purchase of parking coupons during the period from June to December 2005 and launching a territory-wide grand lucky draw during the summer of 2005.

Retail Rental Reduction

In November 2001, HKHA undertook a rent review exercise. The objective of the exercise was to provide relief for tenants who were locked into paying rents above the then prevailing market rates. Approximately 90% of eligible tenants of HKHA's retail facilities, generally being tenants of the Retail Operations on a fixed term tenancy of one year or more, excluding Government lettings, were successful in obtaining rental reductions. The rent review exercise was completed by HKHA in March 2002 and an overall weighted average rent reduction of approximately 19% was granted to eligible tenants who applied successfully. The rental reduction was generally applicable from 1 November 2001 until the expiration of the existing tenancy period or a maximum of 36 months (i.e. up to 31 October 2004), whichever was earlier.

For those tenancies with residual Lease terms of less than three years from 1 November 2001, upon the expiration of their Leases, if such Leases were renewed or the relevant premises were re-let, the rents payable were set at the then market level as assessed by HKHA under its tenancy renewal/re-let procedure. For tenants holding longer Leases expiring after 1 November 2004 (such Leases represented approximately 11% of the total retail IFA of the Retail Operations as at 31 July 2005 and 13% of the annualised rental income of the Retail Operations for the month of July 2005), representing for the most part larger tenants of the shopping centres, such as restaurants and supermarkets, the rent relief was further extended to continue until 31 October 2005, or up to the expiry of individual Leases currently subject to the scheme, whichever is earlier. Upon the expiration of their rental reduction entitlement, these tenants had the option to surrender their existing leases and enter into new leases at the then prevailing market rents.

Rent Relief due to Slow Intake at Certain Housing Estates

The intake of residents at six HKHA developments, and consequently the business of tenants of the related RC Operations, were affected by factors including the delay in construction programmes and the sales moratorium on HOS Courts which was announced on 3 September 2001. In response, HKHA implemented rental adjustment and other relief measures such as allowing tenants of the affected Retail Operations to surrender their existing leases and take on new leases at the prevailing market rents. Rental levels were adjusted based on the occupancy levels of the flats within the individual developments and therefore, the level of relief that was granted varied from one Retail Operation to the other. The relief was granted either for a fixed term or until the population intake at the relevant HKHA development reached a prescribed level. Such rent relief reduced the rental income from the Retail Operations. The rent relief for one Housing Estate expired in 2004 and that for four other Housing Estates expired in 2005. The only Housing Estate that is still subject to rent relief measures is Po Tin Housing Estate. The rent relief measures for this Housing Estate will expire in 2008.

HKHA Staff Reorganisation

Prior to 2002, the Estate Management Division of the Housing Department was responsible for most of the estate management and maintenance services of the RC Operations. During 2001 and 2002, HKHA underwent an internal reorganisation and established a team within the CPSD to take over these property management and supervision functions. The purpose of the reorganisation was to streamline the management of the RC Operations and improve efficiency. Following the reorganisation, these functions were assumed by HKHA staff deployed in the CPSD. As a result of the reorganisation, there was a notable increase in direct staff costs incurred for maintenance and improvements and a decrease in other direct staff costs in 2003. A number of CPSD staff were re-deployed to the Estate Management Division of the Housing Department during 2004 in anticipation of the Divestment. As a result, there was a reduction in staff costs in CPSD in 2004.

Portfolio Growth

Two Retail Operations were opened during the year ended 31 March 2003, both of which were integrated Retail and Carpark Operations. These two Retail Operations increased the total IFA of the Retail Operations by 3.3%, resulting in a total IFA of approximately 925,963 sq.m. as at 31 March 2003. Subsequently, the IFA of the Retail Operations grew by 2.0% and 0.8% during the years ended 31 March 2004 and 2005, respectively. The increase in IFA during the period from 31 March 2004 to 31 March 2005 resulted from adjustments to the boundaries of certain of the Properties, as provided for in the Property Agreement. As at 31 July 2005, the IFA of the Retail Facilities was approximately 960,641 sq.m. See the section headed "Background to the Divestment — The Properties — Demarcation of boundaries defining the Properties" in this Offering Circular for further details.

The Carpark Operations comprised 174 locations with 75,508 carpark spaces as at 31 March 2002. The number of carpark spaces in the Carpark Operations grew by 3.1% from 31 March 2002 to 77,857 carpark spaces as at 31 March 2003. Subsequently, the number of carpark spaces grew 1.3% and 0.6% during the years ended 31 March 2004 and 2005, respectively. As at 31 July 2005, the Carpark Facilities had 79,440 carpark spaces.

The table below sets out the details of the size of the RC Operations as at the dates indicated:

	As at 31 March			As at 31 July	
	2003	2004	2005	2004	2005
Number of RC Operations					
Retail Operations only	2	2	2	2	2
Carpark Operations only	28	29	29	29	29
Integrated Retail and Carpark Operations	149	149	149	149	149
Total	**179**	**180**	**180**	**180**	**180**
Retail IFA (sq.m.)	925,963	944,378	952,187	946,118	960,641
% change from previous period	3.3%	2.0%	0.8%	2.1%	1.5%
				As at(1)	
				30 June 2004	31 July 2005
Carpark spaces (number)					
Monthly	66,810	68,165	68,756	68,529	68,763
Hourly	11,047	10,728	10,628	10,444	10,677
Total Carpark Spaces	**77,857**	**78,893**	**79,384**	**78,973**	**79,440**
% change from previous period	3.1%	1.3%	0.6%	1.4%	0.6%

Note:

(1) In this Offering Circular, the most up to date operational data in respect of the Carpark Operations has been provided as at 31 July 2005. However, the number of carparking spaces within the Carpark Operations has historically been calculated every quarter (as at the end of March, June, September and December). Therefore, for the purposes of a year-on-year comparison, the number of carparking spaces within the Carpark Operations as at 30 June 2004 has been provided. There was no material change in the number of carparking spaces during the periods between: (i) 30 June and 31 July 2004; and (ii) 30 June and 31 July 2005.

Occupancy Rates and Utilisation Rates Trends

The occupancy rate for the Retail Operations as at the relevant dates was calculated by dividing the leased IFA of the Retail Operations by their total IFA. The occupancy rates for the Retail Operations remained relatively stable over the three years ended 31 March 2005 at 91.7%, 90.7% and 91.9% as at 31 March 2003, 31 March 2004 and 31 March 2005, respectively. Historically, vacancies were advertised by publishing announcements in newspapers on a weekly basis. In August 2002, HKHA established a Business Opportunity Centre to promote proactively the lettings of premises at its Retail Operations. Tenants were also allowed to lease vacant premises for a term of one to 12 months through a short-term letting programme. These initiatives contributed to increases in occupancy rates for the Retail Operations over the three years ended 31 March 2005.

The utilisation rate for the Carpark Operations as at the relevant dates was calculated based on the number of monthly tickets sold as a percentage of the total number of monthly parking spaces available in the Carpark Operations (and not taking into account hourly parking for which utilisation rates cannot be calculated on a comparable basis). The utilisation rate for the Carpark Operations was 76.9%, 73.9% and 72.8% as at 31 March 2003, 31 March 2004 and 31 March 2005, respectively. The decrease in utilisation rates over the three years ended 31 March 2005 was mainly attributable to: (i) new carpark developments (including open air carparks), which created an over-supply of carpark facilities in Hong Kong; (ii) competition from public transportation systems affecting private car usage; and (iii) the general downturn of the Hong Kong economy. Any positive impact of the economic recovery in 2004 on the RC Operations was offset by the negative impact of the increase in the supply of carpark facilities in Hong Kong.

The table below summarises the occupancy rates of the Retail Operations and the utilisation rate of the Carpark Operations (calculated as referred to above) as at the dates indicated below:

	As at 31 March			As at 31 July	
	2003	2004	2005	2004	2005
	(%)	(%)	(%)	(%)	(%)
Retail occupancy rate	91.7	90.7	91.9	91.7	91.4
				As at[1]	
				30 June 2004	31 July 2005
Carpark utilisation rate[2]	76.9	73.9	72.8	73.4	72.9

Notes:

(1) In this Offering Circular, the most up to date operational data in respect of the Carpark Operations has been provided as at 31 July 2005. However, utilisation rates of the Carpark Operations have historically been calculated every quarter (as at the end of March, June, September and December). Therefore, for the purposes of a year-on-year comparison, the utilisation rate of the Carpark Operations as at 30 June 2004 has been provided. There was no material change in the carpark utilisation rate during the periods between: (i) 30 June and 31 July 2004; and (ii) 30 June and 31 July 2005.

(2) The spaces for hourly parking were not taken into account for the purpose of calculating carpark utilisation rates.

Comparison of Results of Operations for the Four Months ended 31 July 2004 with the Four Months ended 31 July 2005

Total Revenues

Rental income from the Retail Operations. Although rental rates remained stable, rental income increased from HK$820 million to HK$857 million, representing an increase of 4.5%. The increase was mainly attributable to the cessation of the rent relief scheme available to certain retail tenants and additional rental income from new shopping centres.

Gross receipts from the Carpark Operations. Although monthly carpark charges remained stable, gross receipts from the Carpark Operations decreased from HK$312 million to HK$289 million, representing a decrease of 7.4%. The decrease was mainly due to lower utilisation rates as private car users moved to mass-transit railways and other new public transportation alternatives such as West Rail and Ma On Shan Rail as well as the cessation of the free parking scheme effective 1 April 2005. During the continuance of the free parking scheme, the receipts from the Carpark Operations had to be grossed up for the purposes of determining the remuneration of those Carpark Operators who are remunerated by HKHA on a revenue sharing basis.

Other revenues. Other revenues decreased from HK$77 million to HK$76 million, representing a decrease of 1.3%. The decrease was mainly attributable to a decrease in air conditioning fees payable by tenants from HK$75 million to HK$73 million as a result of HKHA ceasing to impose a general air-conditioning levy for the use of air-conditioning systems at each Property from the date of the next review of air-conditioning charges for such Property from November 2002.

Direct Outgoings

Staff costs. Staff costs decreased from HK$89 million to HK$81 million, representing a decrease of 9.0%. The decrease reflected an on going reduction in the number of CPSD staff principally as a result of staff redeployment in anticipation of the Divestment and a general 3% salary reduction for Government staff which took effect in January 2005.

Property managers' fees and related expenses. Property managers' fees and related expenses increased from HK$131 million to HK$133 million, representing a slight increase of 1.5% due to the intake of retail tenants in two new shopping centres.

Utilities. Utilities expenses remained stable at HK$136 million.

Cleansing and security. Cleansing and security expenses increased from HK$79 million to HK$81 million, representing an increase of 2.5%. The increase was mainly attributable to the existence of a new Government mandate relating to the minimum wages for unskilled workers paid by service contractors procured by Government departments.

Repairs and maintenance. Repairs and maintenance expenses increased from HK$51 million to HK$59 million, representing an increase of 15.7%. This was mainly attributable to the fact that the Manager had, as of 1 March 2005, taken over the maintenance responsibilities in relation to the Properties and had begun implementing repairs and maintenance works in accordance with its repairs and maintenance budget for the year. The Manager's repairs and maintenance budget for the year ended 31 March 2005 is higher than the budget that was applicable for the year ended 31 March 2004 due to the fact that in the year ended 31 March 2004, there was a reduction in the repairs and maintenance undertaken in anticipation of the transfer of repair and maintenance responsibilities to the Manager.

Government rent and rates. Government rent and rates increased from HK$22 million to HK$24 million, representing an increase of 9.1%. The increase was due to an increase in the rateable value of both the Retail Operations and the Carpark Operations.

Estate promotion and marketing expenses. Estate promotion and marketing expenses decreased from HK$40 million to HK$4 million, representing a decrease of 90%. The decrease was mainly attributable to the cessation of the free parking scheme effective 1 April 2005.

Other direct outgoings. Other direct outgoings increased from HK$25 million to HK$31 million, representing an increase of 24%. The increase was mainly attributable to additional insurance expenses incurred as a result of the procurement of property damage and business interruption insurance in anticipation of the initial listing of the Former The Link REIT in 2004. As the insurance policy has remained valid since then, there was a corresponding pro-rated charge of the annual premium for this period. The increase was also due to the launch of additional TPS Estates in which additional management fees for common area costs were payable to the relevant DMC managers.

Other Expenses

General and administrative expenses. General and administrative expenses decreased from HK$33 million to HK$32 million, representing a decrease of 3.0%. The decrease was principally attributable to lower central administration overheads in light of the taking over by the Manager of the corporate support functions in relation to the RC Operations.

(Decrease)/increase in fair values of investment properties.

Investment properties are stated at fair values based on valuations performed by the Independent Property Valuer at each balance sheet date. Changes in fair values are recognised in the profit and loss account.

The revaluation of investment properties gave rise to an increase in fair value of HK$221 million, compared to a decrease in valuation of HK$1,647 million for the prior period.

Net Profit

Net profit before (decrease)/increase in fair values of investment properties increased from HK$603 million for the four months ended 31 July 2004 to HK$641 million for the four months ended 31 July 2005, representing an increase of 6.3%. However, due to the (decrease)/increase in fair values of investment properties, net profit increased from a net loss of HK$1,044 million for the four months ended 31 July 2004 to a net profit of HK$862 million for the four months ended 31 July 2005.

Comparison of Results of Operations for the Year ended 31 March 2004 with the Year ended 31 March 2005

Total Revenues

Rental income from the Retail Operations. Although rental rates remained stable, rental income increased from HK$2,291 million to HK$2,525 million, representing an increase of 10.2%. The increase was mainly attributable to the expiry of the three-month rental concession granted to eligible commercial tenants in the year ended 31 March 2004 during the SARS epidemic, additional rental income from new shopping centres and the cessation of the rent relief scheme available to certain retail tenants.

Gross receipts from the Carpark Operations. Although monthly carpark charges remained stable, gross receipts from the Carpark Operations decreased from HK$946 million to HK$938 million representing a decrease of 0.8%. The decrease was mainly due to lower utilisation rates as private car users moved to mass-transit railways and other new public transportation alternatives such as West Rail and Ma On Shan Rail. There was no change in monthly rates during the year.

Other revenues. Other revenues decreased from HK$261 million to HK$233 million, representing a decrease of 10.7%. The decrease was mainly attributable to a decrease in air-conditioning fees payable by tenants, from HK$252 million to HK$225 million, as a result of HKHA ceasing to impose a general air-conditioning levy for the use of air-conditioning systems at each Property from the date of the next review of air-conditioning charges for such Property from November 2002.

Direct Outgoings

Staff costs. Staff costs decreased from HK$382 million to HK$264 million, representing a decrease of 30.9%. The decrease reflected an on going reduction in the number of CPSD staff principally as a result of a staff redeployment in anticipation of the Divestment and a general 3% salary reduction for Government staff which took effect in January 2004 and a further reduction which took effect in January 2005. The redeployment of staff and headcount reductions resulted in an overall reduction in the number of staff managing the RC Operations from 760 to approximately 600.

Property managers' fees and related expenses. Property managers' fees and related expenses decreased from HK$409 million to HK$405 million, representing a decrease of 1.0%. The decrease was mainly due to a decrease in Carpark Operator expenses. Carpark Operator expenses decreased from HK$255 million in 2004 to HK$252 million in 2005, representing a decrease of 1.2%. The decrease was in line with the 0.8% decrease in carpark income during the same period.

Utilities. Utilities expenses increased from HK$355 million to HK$362 million, representing an increase of 2.0%. This was mainly attributable to the operation of air-conditioners in two additional market stalls fitted during this period. The increase was in part offset by energy-saving initiatives.

Cleansing and security. Cleansing and security expenses increased from HK$235 million to HK$252 million, representing an increase of 7.2%. The increase was mainly attributable to higher wage costs. Wage costs increased due to the existence of a new Government mandate relating to the minimum wages for unskilled workers paid by service contractors procured by Government departments, as well as the move to three eight-hour shifts from two 12-hour shifts.

Repairs and maintenance. Repairs and maintenance expenses decreased from HK$210 million to HK$162 million, representing a decrease of 22.9%. The decrease was mainly attributable to a reduction in repairs and maintenance undertaken in anticipation of the transfer of repair and maintenance responsibilities to the Manager.

Government rent and rates. Government rent and rates decreased from HK$78 million to HK$69 million, representing a decrease of 11.5% due to the lower level of first demand notes(1) in 2005.

Estate promotion and marketing expenses. Estate promotion and marketing expenses increased from HK$131 million to HK$140 million, representing an increase of 6.9%. The increase was mainly due to an increase in free parking provided to shoppers.

Other direct outgoings. Other direct outgoings increased from HK$75 million to HK$121 million, representing an increase of 61.3%. The increase was mainly attributable to the HK$20 million expenses written off in connection with the demolition of the former Shun Lee Cinema and additional recurrent expenditure of the Manager such as expenses incurred in order to maintain insurance (as required by the REIT Code) as well as administrative expenses.

Other Expenses

General and administrative expenses. General and administrative expenses decreased from HK$117 million to HK$108 million, representing a decrease of 7.7%. The decrease was principally attributable to lower depreciation costs, lower central administration overheads and lower training costs. In addition, the corporate-wide computer consultancy expenditure in 2004 did not recur in 2005.

(Decrease)/increase in fair values of investment properties.

Investment properties are stated at fair values based on valuations performed by the Independent Property Valuer at each balance sheet date. Changes in fair values are recognised in the profit and loss account.

The revaluation of investment properties gave rise to an increase in fair value of HK$756 million, compared to an increase in fair valuation of HK$8,915 million for the previous year.

Net Profit

Net profit before (decrease)/increase in fair values of investment properties increased from HK$1,506 million for the financial year ended 31 March 2004 to HK$1,813 million for the financial year ended 31 March 2005, representing an increase of 20.4%. However, due to the (decrease)/increase in fair values of investment properties, net profit decreased from HK$10,421 million for the financial year ended 31 March 2004 to HK$2,569 million for the financial year ended 31 March 2005.

Comparison of Results of Operations for the Year ended 31 March 2003 with the Year ended 31 March 2004

Total Revenues

Rental income from the Retail Operations. Rental income decreased by 8.0% from HK$2,491 million to HK$2,291 million, mainly due to the rental concession arising from the SARS epidemic and a general reduction in market rates. The rental concession arising from the SARS epidemic reduced rental income from the Retail Operations by approximately HK$200 million. During the period, total leased IFA remained stable notwithstanding a 2.0% increase in the IFA of the Retail Operations.

Gross receipts from the Carpark Operations. Gross receipts from carparks decreased by 6.5%, from HK$1,012 million to HK$946 million, mainly due to a 10% reduction in the monthly carpark charges from 1 January 2003, which was partly offset by an increase of demand for hourly parking.

Other revenues. Other revenues decreased from HK$266 million to HK$261 million, representing a decrease of 1.9%. The decrease was mainly attributable to a decrease in

(1) First demand notes are demand notes issued by the Rating and Valuation Department for the payment of Government rent and rates once the rateable values for new facilities have been determined. It may take over a year for these demand notes to be issued, depending on the rate at which such notes can be processed. As such, the first payment may include Government rents and rates for more than a 12-month period.

air-conditioning fees payable by tenants, from HK$258 million to HK$252 million, as a result of HKHA ceasing to impose a general air-conditioning levy for the use of air-conditioning systems at each Property from the date of the next review of air-conditioning charges for such Property from November 2002.

Direct Outgoings

Staff costs. Staff costs decreased from HK$484 million to HK$382 million, representing a decrease of 21.1%. The decrease reflected the internal reorganisation of the CPSD that commenced in 2002 as well as a salary reduction. The internal reorganisation principally reduced staff costs in relation to estate management and maintenance and improvement services, and resulted in more streamlined operations and efficiency gains. The salary reduction was mainly due to a reduction of 3% (on average) in the salaries of Government staff which took place in October 2002 and a further 3% reduction in January 2004. There was also a reduction in staff-related costs charged by the Government, mainly as a result of a reduction in pension contributions.

Property managers' fees and related expenses. Property managers' fees and related expenses increased from HK$401 million to HK$409 million, representing an increase of 2.0%. The increase was mainly attributable to the increase in the number of RC Operations during 2002 and 2003 as well as an increase in Carpark Operator expenses. Carpark Operator expenses increased from HK$253 million in 2003 to HK$255 million in 2004, representing an increase of 0.8%. The increase was mainly due to an increase in the rebates to Carpark Operators to compensate them for reduced charges resulting from the carpark charges reduction introduced in 2002.

Utilities. Utilities expenses increased from HK$350 million to HK$355 million, representing an increase of 1.4% mainly as a result of an increase of 8,655 sq.m. of retail space with air-conditioning facilities.

Cleansing and security. Cleansing and security expenses increased from HK$211 million to HK$235 million, representing an increase of 11.4%. Security expenses increased from HK$108 million to HK$125 million. The increase in security expenses was mainly attributable to an increase in the security expenses incurred for the Retail Operations, which was the result of a continued change from two 12-hour shifts to three eight-hour shifts for security guards in all of the Retail Operations, and the addition of new phases in three existing Retail Operations. Cleansing expenses increased from HK$103 million to HK$110 million. The increase was mainly due to increased cleansing frequency following the conclusion of the SARS epidemic. However, the increases in the cleansing and security expenses were partially offset by a decrease in cleansing and security expenses incurred in the Carpark Operations resulting primarily from the transfer of management from PMAs to Carpark Operators, with such expenses being absorbed by the Carpark Operators.

Repairs and maintenance. Repairs and maintenance expenses decreased from HK$230 million to HK$210 million, representing a decrease of 8.7%. The decrease was mainly attributable to better preventative maintenance and more systematic and effective cost control arising from the transfer of supervision of repairs and maintenance in 2002 to the CPSD.

Government rent and rates. Government rent and rates increased from HK$72 million to HK$78 million, representing an increase of 8.3% due to the full year effect of additional carpark spaces added during 2002 as well as the increase in the issuance of first demand notes.

Estate promotion and marketing expenses. Estate promotion and marketing expenses increased from HK$99 million to HK$131 million, representing an increase of 32.3%. The increase was mainly due to the expense of the free parking offered to shoppers and was partially offset by a decrease in promotion activities relating to the Retail Operations due to the SARS epidemic. The free parking expense increased due to the increased popularity of the free parking programme after the extension of the scheme to permit one hour of free parking for shoppers spending more than HK$100 and two hours of free parking for shoppers spending more than HK$200.

Other direct outgoings. Other direct outgoings increased from HK$67 million to HK$75 million, representing an increase of 11.9%. The increase was mainly attributable to costs relating to a special cleansing programme as well as the implementation of certain special hygiene awareness campaigns due to the SARS epidemic.

Other Expenses

General and administrative expenses. General and administrative expenses decreased from HK$122 million to HK$117 million, representing a decrease of 4.1%. The decrease was principally attributable to a decrease in allocated costs in relation to HKHA central administration overheads, which mainly resulted from the introduction of an overall HKHA policy in 2003 for each division to implement cost saving measures.

(Decrease)/increase in fair values of investment properties.

The revaluation of investment properties gave rise to an increase in fair values of HK$8,915 million, compared to a decrease in valuation of HK$2,302 million for the previous year.

Net Profit

Net profit before (decrease)/increase in fair values of investment properties decreased from HK$1,733 million for the financial year ended 31 March 2003 to HK$1,506 million for the financial year ended 31 March 2004, representing a decrease of 13.1%. However, due to the (decrease)/increase in fair values of investment properties, net profit increased from a net loss of HK$569 million for the financial year ended 31 March 2003 to a net profit of HK$10,421 million for the financial year ended 31 March 2004.

Liquidity and Capital Resources

The principal sources of funding for the acquisition, development, expansion and renovation of the RC Operations have historically been HKHA's centrally administered funds. The cash control and treasury functions of the RC Operations have historically been centrally administered by HKHA. Receipt of rental income, settlement of expenses payable and capital works in progress, and the acquisition, development and refurbishment of fixed assets were handled by HKHA's head office centrally and are therefore shown as a net current account balance with HKHA in the Audited Financial Statements of the RC Operations set out in Appendix I to this Offering Circular.

Indebtedness

As the operations of the RC Operations were fully funded by HKHA's funds, no indebtedness was incurred during the Relevant Periods.

Capital Expenditure

The table below sets forth details of historical capital expenditure for the periods indicated. The amounts indicated for "Retail Operations" and "Carpark Operations" relate to capital charges in relation to newly acquired facilities and major renovation and improvements of existing facilities. The other amounts relate to capital expenditure incurred in connection with the acquisition of assets under the categories "Leasehold improvements", " Motor vehicles" and "Equipment".

	Year ended 31 March			Four months ended 31 July	
	2003	2004	2005	2004	2005
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Retail Operations	1,440	940	297	129	—
Carpark Operations	709	422	165	90	—
Leasehold improvements	—	—	4	—	—
Motor vehicles	—	—	1	—	—
Equipment	3	5	22	1	2
Total	2,152	1,367	489	220	2

Capital expenditure has generally been incurred in connection with the construction and development of new facilities and the making of major improvement works to the RC Operations. Historically, capital expenditure in relation to the RC Operations has been funded by HKHA.