

### **Previous Offering and Earlier Proceedings**

The Global Offering follows from the announcement on 6 September 2005 of the decision by HKHA's Supervisory Group on Divestment to re-launch the global offering of units in a real estate investment trust to implement HKHA's decision (made on 24 July 2003) to divest its retail and carpark facilities.

The Previous Offering was made by publication of the 2004 Offering Circular on 25 November 2004 and was subsequently the subject of a legal challenge by way of application for judicial review brought by Madam Lo Siu Lan and Mr. Ma Ki Chiu. The application for judicial review was made on 8 December 2004 claiming, among other things, that HKHA was acting ultra vires (i.e. beyond its powers) in undertaking the Divestment.

The Previous Offering was stipulated to close no later than 20 December 2004. Following the ruling of the Appeal Committee of the Court of Final Appeal on 17 December 2004, it became clear that the possibility of further appeal to the Court of Final Appeal would not be capable of being resolved within the timeframe applicable to the Previous Offering. That unresolved possibility of further appeal constituted a material change in circumstances from those prevailing at the time of publication of the 2004 Offering Circular. Consequently, it was announced on 19 December 2004 that the Previous Offering would not proceed having regard to the unresolved possibility of appeal to the Court of Final Appeal.

The Earlier Proceedings culminated in a judgment of the Court of Final Appeal handed down on 20 July 2005, upholding the earlier judgments of the Court of First Instance and Court of Appeal. In that judgment, the Court of Final Appeal held that the Divestment is consistent with HKHA's statutory objects and, accordingly, within the power of HKHA. See the section headed "Possibility of Legal Challenge and Related Terms and Conditions of the Global Offering" in this Offering Circular.

The Previous Offering lapsed, as stated above, and the 2004 Offering Circular has no legal effect as regards the current Global Offering. Unit certificates issued pursuant to the Previous Offering are null and void for all purposes and are not valid (and have no effect) under the current Hong Kong Public Offering or Global Offering, and do not constitute valid evidence of title.

Preparatory work for the Global Offering has continued since the lapse of the Previous Offering.

### **Preparation by HKHA**

The Properties are currently owned and operated by HKHA. Pursuant to the Government's review of its public housing policy, it was recommended that HKHA progressively divest its non-core assets. To realise this objective, HKHA has agreed to proceed with the Divestment through the initial public offering of units in a REIT, namely The Link REIT.

HKHA commenced its preparations for the Divestment in July 2002. The following are the key milestones of HKHA's preparatory activities:

- July 2002 — HKHA commissioned a consultancy project to investigate the feasibility and means of divesting its retail and carparking facilities.
- November 2002 — the Government formally announced its new housing policy which suggested that HKHA should divest its non-core assets.
- July 2003 — The Chief Executive, on the advice of the Executive Council of the Government, ordered the Housing Department to seek HKHA's agreement in principle to divest its retail and carparking facilities.
- July 2003 — HKHA decided to divest its retail and carparking facilities.
- December 2003 — the adoption of a REIT as the structure of the Divestment was formally endorsed by HKHA's Supervisory Group on Divestment.
- February 2004 — the Manager was incorporated as a subsidiary of HKHA.

## BACKGROUND TO THE DIVESTMENT

- 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.
- March 2005 — the Manager took over the management of all the Properties pursuant to arrangements which are now governed by the Leasing Services Agreement and the Management Agreement.
- September 2005 — The Link REIT was constituted as a unit trust following the issuance of two Founder Units and the Main Agreements were signed.
- September 2005 — the Former The Link REIT was formally terminated and the authorisation of the Former The Link REIT was withdrawn by the SFC.
- November 2005 — The Link REIT was authorised by the SFC under section 104 of the SFO and the Supplemental Deeds were signed.

Following the decision to adopt a REIT structure and in anticipation of the Divestment and listing of the Units, the Manager was incorporated in Hong Kong as a subsidiary of HKHA in February 2004 to become the manager of The Link REIT. Subsequently, HoldCo and PropCo were incorporated in the Cayman Islands to act as direct and indirect holding companies, respectively, of the Properties upon Principal Completion and FinanceCo was incorporated in Hong Kong as a wholly-owned subsidiary for the purpose of acting as the financing vehicle for The Link REIT pursuant to the Facility Agreement as well as going forward after the IPO.

On 6 September 2005, The Link REIT was constituted as a unit trust pursuant to the Trust Deed which was entered into between the Manager and the Trustee. Pursuant to the Trust Deed, The Link REIT issued two Founder Units at a price of HK\$100 each. One Founder Unit was issued and allotted to each of Mr. So Hing Woh Victor and Mr. Cheng Ming Fun Paul solely for the purpose of perfecting the trust prior to the IPO. A Supplemental Deed supplementing the Trust Deed was entered into between the Manager and the Trustee on 4 November 2005 in order to incorporate changes that had to be made to the Trust Deed to comply with the requirements of the REIT Code and to obtain the SFC's authorisation of The Link REIT. On The Listing Date, the two Founder Units will be compulsorily redeemed at their issue price and cancelled, and the subscription price repaid to the holders.

Upon completion of the Global Offering, Units in The Link REIT will be issued to successful applicants under the Hong Kong Public Offering and the International Offering and the Strategic Partner. HKHA may also own Units in The Link REIT upon completion of the Global Offering. See the sections headed "Ownership of the Units" and "The Trust Deed" in this Offering Circular for further details.

The following table sets out particulars (as at the Latest Practicable Date) of companies that will be owned by the Trustee on behalf of The Link REIT upon completion of the Global Offering:

Company	Registered holder of 100% of share capital	Date of incorporation	Place of incorporation	Issued and paid up share capital	Principal activities
The Link Finance Limited (FinanceCo)	The Link Holdings Limited	9 August 2004	Hong Kong	HK\$1.00	Finance holding company
The Link Holdings Limited (HoldCo)	Hong Kong Housing Authority	2 August 2004	Cayman Islands	US\$1.00	Property holding company
The Link Management Limited (the Manager)	Hong Kong Housing Authority	20 February 2004	Hong Kong	HK\$5,000,001	Asset management company
The Link Properties Limited (PropCo)	Hong Kong Housing Authority	2 August 2004	Cayman Islands	US\$1.00	Property holding company

The Chief Executive Officer is a director of each of FinanceCo, HoldCo and PropCo.

HKHA currently owns the entire issued share capital of the Manager, HoldCo and PropCo. Upon completion of the Global Offering, and pursuant to the Acquisition Arrangements, the entire issued share capital of the Manager and HoldCo will be owned by the Trustee on trust and held for the benefit of Unitholders, and HoldCo will be the holding company of PropCo, which will in turn be the owner of the Properties.

Under the Property Agreement, HKHA has conditionally agreed to transfer the beneficial ownership of all the Properties and the legal ownership of 76 of the List 1 Properties to PropCo immediately following receipt of the proceeds of the Global Offering by the Trustee on the Listing Date. Legal title to the remaining Properties will be transferred to PropCo in stages after the Listing Date.

For further details of the arrangements that have taken place as part of the property reorganisation, see the sections headed “Terms of Acquisition” and “Material Contracts and Other Documents and Information” in this Offering Circular.

## **The Properties**

### ***Selection of Properties for Divestment***

HKHA’s estates can be categorised into two types: (i) estates which HKHA owns under Government Leases (typically comprising HOS Courts and TPS Estates); and (ii) public rental estates where the control and management have been vested in HKHA under vesting orders pursuant to section 5 of the Housing Ordinance (instead of Government Leases). All 100 List 1 Properties are within the first category and the List 2 Properties are within the second category (save for one List 2 Property in Yiu Tung Estate which is held by HKHA under a possession licence from the Government).

The basic principle that has been applied in selecting the Properties for the Divestment is that, to the extent possible, all retail and carpark facilities of HKHA should be divested. Certain properties were excluded on the basis of the following considerations:

- *Age of the properties*: where significant improvements would be required before they could be commercially viable;
- *Redevelopment schedule*: where the Housing Estates in which such properties were located were already scheduled for redevelopment;
- *Size of the Housing Estates*: where small scale estates serving small resident populations were considered unsuitable for commercial operations;
- *Location of the Housing Estates*: where such estates were in isolated areas (such as outlying islands of Hong Kong); and
- *Title to the Housing Estates*: where the Housing Estates had certain title complications which made the properties within them inappropriate to divest at this stage.

### ***Structural Considerations in relation to the Properties***

The Property Consultant carried out either a building condition survey on, or a detailed review of, each of the Properties in relation to their construction material, structure and building services installations and concluded that the Properties were in reasonable condition consistent with buildings of a similar age and that there were no material defects that would impede the transfer of the Properties. As part of its review, the Property Consultant also estimated the cost of compliance with relevant building and fire safety codes (in particular, the Fire Safety (Commercial Premises) Ordinance) and any necessary repairs and maintenance works. See the section headed “The Properties and Business — Business — Legal and Regulatory Compliance” in this Offering Circular for further details on the compliance by The Link REIT with relevant laws and regulations in respect of its ownership of the Properties. The Property Consultant also identified any valid transferable warranties as confirmed and provided by HKHA. The costs identified and estimated by the Property Consultant were made available to the Independent Property Valuer to facilitate the valuation of the Properties. For details, see the Property Consultant’s building due diligence report set out in Appendix VI to this Offering Circular.

***Demarcation of boundaries defining the Properties***

The general principles applied in determining the extent and boundaries of the properties to be divested within the Housing Estate included the following:

- all retail and carparking facilities within each Housing Estate were to be divested to the extent possible (for example, shopping centres, market stalls, cooked food stalls, shops located on the ground floor of domestic blocks, carpark blocks and open parking spaces);
- standalone shopping centres and carpark blocks would be divested in their entirety to the extent possible, including any non-retail facilities located within the buildings;
- areas and facilities which are complementary to or necessary for the operation of the retail and carparking facilities would be included to the extent possible (for example, access roads, loading and unloading areas and refuse/waste collection facilities exclusively serving such facilities, circulation areas exclusively serving open parking spaces and open venues for promotional activities);
- vacant premises, originally designated for retail or non-retail lettings, would be included to the extent possible, subject to their commercial potential;
- certain vacant bays or areas within the List 2 Properties would be considered for inclusion subject to the merits of individual cases and building regulations; and
- government institution and community facilities were in general excluded from the Divestment (for example, public transport terminals, schools, indoor recreation centres and community halls).

In addition, the extent and boundaries of the properties to be divested depended on stipulations under the applicable Government Leases and the relevant deeds of mutual covenant. The boundaries of the Properties within all the List 1 Properties are generally well-indicated under Government Leases and relevant deeds of mutual covenant, although the exact boundaries of 24 List 1 Properties where legal title is to be transferred after the Listing Date will be subject to some adjustments as provided for in the Property Agreement. The boundaries of the Properties within the List 2 Properties will be subject to the granting of Government Leases and deeds of mutual covenant and to adjustments as provided for in the Property Agreement. In respect of the 24 List 1 Properties and all the List 2 Properties, HKHA has prepared provisional divestment boundary plans for each Property and such plans have been annexed to the Property Agreement. Under the Property Agreement, HKHA is entitled to make adjustments to the final legal boundaries of such Properties in accordance with certain agreed principles for adjustments and if in certain circumstances the market value of any Property at the time the legal title is transferred (as determined by an independent valuer) is adversely affected by any such adjustments, HKHA is required to pay the difference in value to PropCo by way of compensation. Assignment plans showing the final legal boundaries of each of these Properties will be annexed to the assignment of such Properties when legal title is transferred to The Link REIT. For further details, see the section headed “Material Contracts and Other Documents and Information — Agreements Relating to the Acquisition of the Properties — Property Agreement” in this Offering Circular.

***Property Title and Transfer of the Properties to PropCo***

Upon completion of the Global Offering, legal title to 76 of the List 1 Properties will be transferred to The Link REIT (through PropCo) and The Link REIT (through PropCo) will be the beneficial owner of all of the Properties. This means that, pending the transfer to it of the legal title in respect of 24 of the List 1 Properties and all the List 2 Properties as mentioned below, it will have all the ownership rights associated with all the Properties, including the right to income and full management and letting rights and the risks and rewards associated with such ownership.

Pursuant to the Property Agreement, whilst legal title to 76 of the List 1 Properties will be fully transferred to The Link REIT upon Principal Completion, certain legal technicalities in respect of the remaining 24 List 1 Properties will need to be addressed before the legal title to such properties can be transferred to The Link REIT. The legal technicalities mainly relate to finalising deeds of mutual covenant or sub-deeds of mutual covenant and deed polls. It is intended that these technicalities will be addressed and the legal title to these 24 List 1 Properties will be transferred to The Link REIT

tentatively by: (i) the end of December 2005 for 10 of the List 1 Properties; and (ii) the first quarter of 2006 for the remaining 14 List 1 Properties.

As regards the List 2 Properties, under the Government Agreement, the Government has agreed to grant the necessary Government Leases of those Housing Estates within which the List 2 Properties are situated to HKHA as soon as reasonably practicable, thereby bestowing full legal title on HKHA. In addition, the Government has also agreed to procure that its relevant departments lend all reasonable assistance to HKHA to enable the necessary Government Leases to be granted and deeds of mutual covenant (based on forms substantially agreed with the Lands Department) to be completed as soon as reasonably practicable. It is intended that the legal title to the List 2 Properties will be transferred to The Link REIT in batches following the Listing Date, with the process tentatively intended to be completed by the middle of 2008.

For further details of the arrangements that have taken place as part of the property reorganisation, see the sections headed “Terms of Acquisition” and “Material Contracts and Other Documents and Information” in this Offering Circular.

### ***Equipment, Supplies and Installations used in connection with the Properties***

At or prior to completion of the Share Purchase Agreement, HKHA, the Manager and PropCo are expected to enter into the Asset Transfer Agreement pursuant to which the Manager will purchase from HKHA certain furniture, office equipment, supplies and decorations and PropCo will purchase from HKHA certain equipment and installations, furniture, office equipment and supplies, information technology equipment, carpark installations (such as guard booths, kiosks and drop-bars) and a replicated copy of the Commercial Properties Management System, the Financial Information System and the Maintenance Management Information System (including their respective source codes and computer programmes), each of which are used or intended to be used in connection with the Properties, for a consideration of approximately HK\$28.7 million, with HK\$1 payable by the Manager and the remainder payable by PropCo.

### **Transitional Arrangements**

The Manager and HKHA have entered into certain transitional arrangements which are intended to continue until the Listing Date.

#### ***Transitional Support Agreement***

HKHA and the Manager entered into the Transitional Support Agreement on 1 July 2004, which was supplemented on 28 January 2005. Pursuant to this agreement, HKHA has agreed to provide financial support to the Manager. In return, as part of the transition plan for the Divestment, the Manager may provide certain services to HKHA as agreed to by the parties from time to time. The Transitional Support Agreement will be terminated upon the Service Level Agreement becoming effective on the Listing Date.

#### ***Management Agreement***

Since 1 March 2005, the Manager (currently a wholly-owned subsidiary of HKHA) has been providing management services to HKHA in respect of the Properties. This arrangement was formalised on 30 May 2005 when the Manager and HKHA entered into the Management Agreement, which is deemed to take effect from 1 March 2005. The management services provided by the Manager pursuant to the Management Agreement include:

- collection of rents, rates and other fees and charges;
- marketing, promotion and public relations services;
- maintenance of the Properties;
- monitoring of property management services contractors; and
- capital improvement programmes.

Capital improvements and day-to-day maintenance works are undertaken in accordance within the terms of the budget. The Manager is responsible for procuring its own contracts and assumes full responsibility including supervision of works and certification of payments. HKHA makes regular payments to the Manager to cover the Manager's costs and expenses incurred in discharging its obligations under the agreement. No other fees are payable under the Management Agreement. The Management Agreement will terminate when the Manager ceases to be a wholly-owned subsidiary of HKHA on the Listing Date.

### ***Leasing Services Agreement***

The Manager has also agreed to act as the leasing agent of HKHA in respect of all new lettings to be entered into and tenancy renewals that fall due in respect of the Properties on or after 1 May 2005. As with the Management Agreement, this arrangement was also formalised on 30 May 2005 when the Manager and HKHA entered into the Leasing Services Agreement. A joint leasing panel comprising representatives of HKHA and the Manager oversees leasing matters relating to the Properties. The ultimate decision on leasing terms and rent levels still rests with HKHA. HKHA provides funding to the Manager to cover the Manager's costs and expenses arising as a result of the provision of the services. No other fees are payable under the Leasing Services Agreement. The Leasing Services Agreement will terminate when the Manager ceases to be a wholly-owned subsidiary of HKHA on the Listing Date.

### ***Other Agreements***

HKHA has also entered into a number of agreements with various parties in connection with the reorganisation and the transfer of the Properties. Details of these agreements can be found in the sections headed "Material Contracts and Other Documents and Information" and "Terms of Acquisition" in this Offering Circular.