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## **The Link Real Estate Investment Trust**

*(a collective investment scheme authorised under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*  
**(stock code: 823)**

### **ACQUISITION OF THE LAND FOR PROPERTY DEVELOPMENT VIA JOINT VENTURE**

The Board is pleased to announce that on 27 January 2015, The Link through the Joint Venture (in which The Link has an indirect 60% interest and Dual Success Investments Limited (being the NF SPV) has a 40% interest) had successfully tendered for the Land at the land premium of HK\$5,860 million. NF SPV is a member of the NF Group, which is generally recognised as one of the leading property developers in Hong Kong.

The Land is situated at the junction of Hung Yip Street, Wai Yip Street, Shun Yip Street and Hoi Bun Road, Kwun Tong, Kowloon, and is currently vacant. Pursuant to the Land Grant, the Land has a site area of approximately 6,843 square metres and a maximum gross floor area of 82,116 square metres. The Appraised Value of the Land according to the Valuation Report by the Principal Valuer is HK\$5,380 million.

As part-and-parcel with the acquisition of the Land, and consistent with the expanded investment strategy of The Link approved by Unitholders on 15 January 2015, the Joint Venture intends to develop the Land into a Grade-A office commercial complex comprising two office towers with retail elements thereat and car parks thereunder (being the Commercial Development).

NF SPV will coordinate with the NF Construction Entities that are proposed to be appointed by the Joint Venture to (under the supervision of the board of directors of Project Co and the Management Committee): (i) act as the project manager and be responsible for the overall project supervision of the Commercial Development in accordance with the approved design, timetable and specifications; and (ii) implement the construction, fitting-out and completion of the Commercial Development. It is expected that the Commercial Development will be completed on or before 30 June 2020, in accordance with the conditions of the Land Grant. The Link's Portion of the Total Development Costs (which includes the land premium) is estimated at approximately HK\$6,325 million, representing approximately 4.9% of the Gross Asset Value of The Link, which is within the GAV Cap.

The Link will be primarily responsible for managing the letting and day-to-day operations of the Commercial Development.

This announcement is made pursuant to 10.3 and 10.4 of the REIT Code. The Link's Portion of the Total Development Costs represents approximately: (i) 5.2% of the total market capitalisation of The Link (based on the average closing price of the Units on the Stock Exchange for the five business days immediately preceding the date of this announcement); and (ii) 4.9% of the total assets of The Link as at 30 September 2014 (as disclosed in its 2014/2015 Interim Report) after adjusting for the interim distribution paid by The Link on 9 December 2014 and disposal of five properties by The Link announced and completed, respectively, on 29 September 2014 and 1 December 2014, and is also less than 15% of the gross asset value of The Link as at 30 September 2014 (as shown in the 2014/2015 Interim Report).

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of NF SPV, NFD, the NF Construction Entities and their respective ultimate beneficial owner(s) is an Independent Third Party. Accordingly, the execution of the JV Agreement, PCM Agreements and the respective transactions contemplated thereunder do not constitute connected party transactions of The Link under the REIT Code.

The Board is satisfied that no Unitholders' approval is required under the REIT Code and the Trust Deed for The Link to acquire the Land through the Joint Venture. The Board (including the independent non-executive Directors) is satisfied that: (i) the acquisition of the Land by Project Co and construction of the Commercial Development; and (ii) the execution of the JV Agreement and the transactions contemplated thereunder, are at arm's length, on normal commercial terms, and are fair and reasonable and in the best interests of The Link and the Unitholders as a whole. Based on and in sole reliance on the opinion of the Board and the information and confirmation provided by the Manager (and having taken into account its duties under the Trust Deed and the REIT Code), the Trustee has no objection to: (i) the acquisition of the Land by Project Co and construction of the Commercial Development; and/or (ii) the execution of the JV Agreement and the transactions contemplated under the JV Agreement. Further, the Trustee is satisfied that: (a) the acquisition of the Land by Project Co, the construction of the Commercial Development and the Joint Venture are consistent with The Link's investment policy and in compliance with the REIT Code and the Trust Deed; and (b) no Unitholders' approval is required under the REIT Code and the Trust Deed for such matters.

The Manager will provide periodic updates in The Link's annual and interim reports of the material information concerning the Commercial Development, including the progress of works of the Commercial Development and the extent (in percentage terms) to which the GAV Cap has been applied, and the audit committee of the Manager shall review the same. Also, the Manager will provide timely disclosure on material developments relating to the Commercial Development in compliance with the REIT Code as and when necessary.

## **SECTION I. ACQUISITION OF THE LAND FOR PROPERTY DEVELOPMENT**

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On 27 January 2015, the Government notified the Joint Venture (in which The Link has an indirect 60% interest and NF SPV has a 40% interest) that it had successfully tendered for the Land at the land premium of HK\$5,860 million.

As the successful tenderer, the Joint Venture is required to execute the Land Grant with the Government within 14 days from the abovementioned Government notification and pay to the Government within 28 days from the abovementioned Government notification the entire amount of the land premium (less the fully-refundable deposit of HK\$25 million paid on submission of the Tender, 60% of which was contributed by The Link).

## **SECTION II. ABOUT THE LAND AND THE COMMERCIAL DEVELOPMENT**

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The Land is situated at the junction of Hung Yip Street, Wai Yip Street, Shun Yip Street and Hoi Bun Road, Kwun Tong, Kowloon, and is currently vacant. Pursuant to the Land Grant, the Land has a site area of approximately 6,843 square metres and a maximum gross floor area of 82,116 square metres. According to the Land Grant, the Land and any building thereon, or any part thereof, shall not be used for any purpose other than for non-industrial (excluding residential, hotel, go-down, petrol filling station and residential care home) purpose. The term of years under which the Land is held under the Land Grant is 50 years from the date of the Land Grant.

The Appraised Value of the Land according to the Valuation Report by the Principal Valuer is HK\$5,380 million, adopting the Residual Approach cross-checked with the Direct Comparison Approach in accordance with the “HKIS Valuation Standards (2012 Edition)” published by the Hong Kong Institute of Surveyors and the REIT Code.

The Land or any part thereof or interest therein shall not be disposed of prior to compliance with the conditions in the Land Grant, unless prior approval has been obtained from the Director of Lands of the Government and any conditions attached to such approval are complied with. In addition to the permitted use described above, the Land Grant requires, among other things, that the proposed Commercial Development shall be completed and made fit for occupation, latest, by 30 June 2020. The Government has a right to terminate the Land Grant and re-enter the Land in the event Project Co fails to observe or perform the terms and conditions of the Land Grant.

As part-and-parcel with the acquisition of the Land, and consistent with the expanded investment strategy of The Link approved by Unitholders on 15 January 2015, the Joint Venture intends to develop the Land into a Grade-A office commercial complex with two office towers and retail elements thereat and car parks thereunder (which is the Commercial Development) in accordance with the requirements of the Land Grant and applicable laws and regulations. In accordance with the permitted use under the Land Grant, no residential components will form part of the Commercial Development or otherwise be built on the Land.

NF SPV will coordinate with the NF Construction Entities that are proposed to be appointed by the Joint Venture to (under the supervision of the board of directors of Project Co and the Management Committee): (i) act as the project manager and be responsible for the overall project supervision of the Commercial Development in accordance with the approved design, timetable and specifications; and (ii) implement the construction, fitting-out and completion of the Commercial Development. For further details, please refer to section V.8 below. It is expected that the Commercial Development will be completed on or before 30 June 2020 in accordance with the conditions of the Land Grant. The Link will be primarily responsible for managing the letting and day-to-day operations of the Commercial Development following its completion.

### **SECTION III. REASONS FOR THE ACQUISITION AND THE JOINT VENTURE**

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The Manager is of the view that investing in the Land and the proposed Commercial Development (via the Joint Venture) is in the interest of the long-term development of The Link.

#### **A. The reasons and benefits for the Acquisition and Commercial Development**

- *Complementing the stable income stream*

Statistics from the Government's Rating and Valuation Department indicate that Hong Kong office rent (similar to retail) has a high positive correlation with Hong Kong GDP, and has been in line with the growth of Hong Kong retail rentals from 1998 to 2013. The office rental market was proven to be resilient and recovered quickly from the 2008 financial crisis. Office rentals are stable and the level of Grade-A office rentals has been growing with low vacancy rate. The addition of a new quality office asset to The Link's portfolio will complement the stable income stream and reinforce the growth of The Link. Exposing The Link to a different market segment cycle (i.e. office) also diversifies the risk to The Link's predominantly retail-based income stream as the growth of one market segment differs from the other.

- *Opportunity to invest in asset built to own specifications*

Quality commercial assets are rare for acquisition and the current yield of retail assets is at a historic low. On the other hand, the Manager considers that the capital value of Hong Kong office buildings has been underperforming (compared to Hong Kong retail assets prices) for many years, and that there is further capital appreciation potential for office/commercial assets which are well-located in Hong Kong and offer large floor area for corporate tenants.

Purchasing the Land to build the Commercial Development to The Link's specifications and trade/tenant-mix requirements could bring attractive yield in terms of both income growth and capital appreciation potential.

- *Early stage with lower entry cost*

The Manager considers that early participation in the development phase of the Commercial Development will result in a lower purchase price closer to “at-cost” pricing for The Link, providing The Link with a more attractive investment opportunity than acquiring completed commercial properties in the district.

- *Positive sector outlook*

Demand for Hong Kong office has exceeded supply for a considerable period. According to a recent Hong Kong Grade-A Office Market Study commissioned by the Manager (the **Study**), long term average Grade-A office demand over the last 15 years to 2014 was 1.9 million square feet (net) against the average historical supply for the same period of about 1.7 million square feet (net). In the Study, it is further noted that the vacancy rate in the overall Grade-A office market has been below 5% since 2010, and below the 15 years average of about 6%. The Study indicates that annual supply may average 2.3 million square feet (net) per year (above the last 15 years annual average of 1.7 million square feet (net) per year) between 2015 and 2018, vacancy rates will start to drop after the supply hike in 2018.

- *Potential of Kowloon East*

Kowloon East, where the Commercial Development is located, has attracted insurance firms and back offices of multi-national corporations and financial institutions primarily due to competitive rental prices and the availability of brand-new and high quality office buildings in the district. The Study expects that this (Kowloon East) submarket is set to become Hong Kong’s second biggest Grade-A-office-submarket in terms of floor space by 2016, trailing only Central. The Government has announced plans to energise Kowloon East as “CBD2” and new sites will be released to build the critical mass for commercial developments in the area. Planned transport infrastructure, such as the proposed monorail connecting Kowloon East to the Kai Tak Development and the future Shatin-Central Line connecting the area to the other parts of Hong Kong and beyond, will further enhance the leasing prospect and capital appreciation potential of the proposed Commercial Development.

## **B. The reasons and benefits for the Joint Venture**

The Manager has expertise in land development within its asset management and senior management teams with many key personnel having worked with leading Hong Kong developers before they joined The Link. The Manager also has internal control procedures to ensure quality and cost controls.

The NF Group is an established property developer with a proven track record of developing large-scale residential and commercial property projects in Hong Kong. Partnering with the NF Group not only diversifies the investment risk but also enables The Link to leverage on the NF Group’s expertise and networks when negotiating construction and supply contracts (through a NF Construction Entity) for the Commercial Development and the NF Group’s general experience with the Hong Kong property and capital markets.

The Manager considers the NF Group to be a reputable, suitably qualified and financially sound joint venture partner for developing the Commercial Development.

#### **SECTION IV. THE JOINT VENTURE**

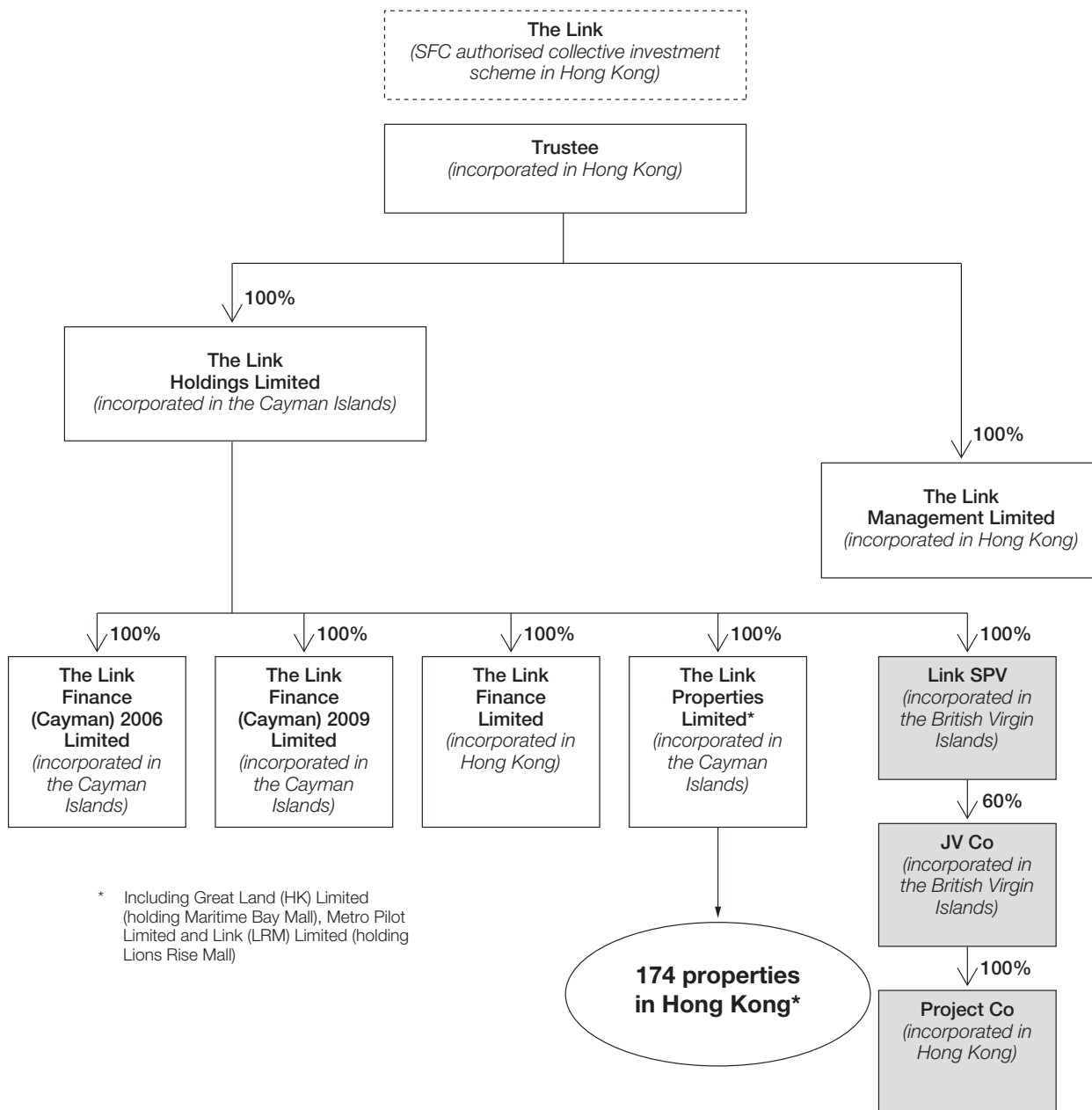
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JV Co and Project Co were newly established to facilitate the Joint Venture's participation in the Government's public tender of the Land.

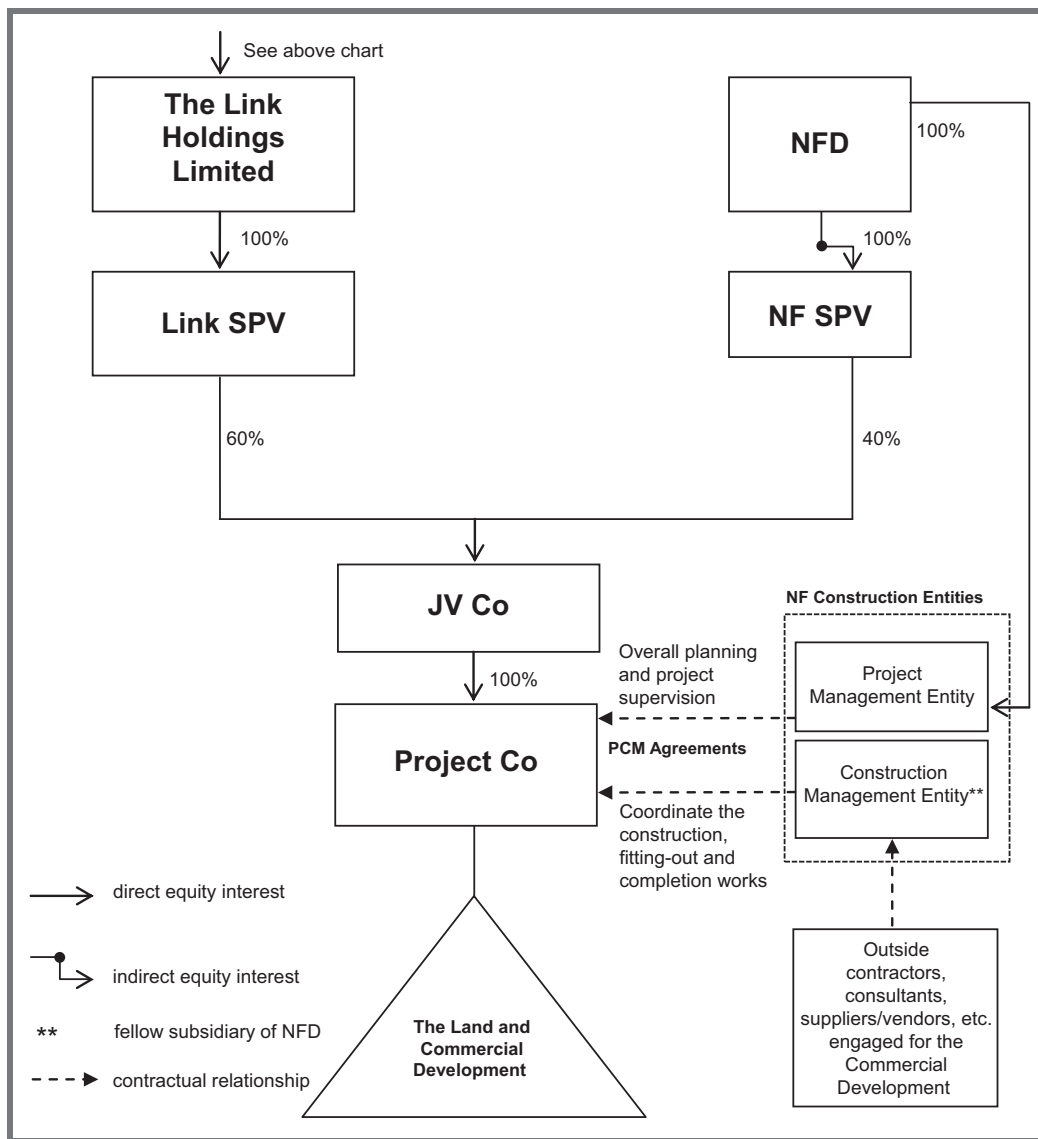
JV Co (incorporated in the British Virgin Islands) is owned by The Link (through Link SPV) as to 60% and by the NF Group (through NF SPV) as to the remaining 40%. Project Co (incorporated in Hong Kong) is wholly owned by JV Co.

The Link and the NF Group will fund their respective share of the Total Development Costs by way of shareholder loan to JV Co and share the profits and losses of JV Co in accordance with the Shareholders' Proportion.

For illustrative purpose, the simplified structure chart of The Link after formation of the Joint Venture is as follows:



The chart below shows the entities proposed to be involved in the Joint Venture and/or Commercial Development:



## SECTION V. KEY TERMS OF THE JV AGREEMENT

Below is a summary of the key terms of the JV Agreement, which is governed by Hong Kong law.

### 1. Date of the JV Agreement

27 January 2015



## **2. Parties**

- (1) Link SPV;
- (2) NF SPV;
- (3) The Link Properties Limited (as guarantor for the performance of the obligations of Link SPV under the JV Agreement);
- (4) NFD (as guarantor for the performance of the obligations of NF SPV under the JV Agreement);  
and
- (5) JV Co.

## **3. Scope of Business**

JV Co shall not have any business other than being the registered and beneficial owner of all issued shares in Project Co and the conduit for channeling funding provided by the JV Shareholders to Project Co.

Project Co shall not have any business other than the acquisition and holding of the Land and the implementation of the Commercial Development project. The Commercial Development project involves among other things: (i) the construction and fitting out of the Commercial Development to which the Land relates; and (ii) the letting, maintenance, operation and management of the Commercial Development.

## **4. Board structure of the JV Group Companies**

The boards of directors of JV Co and Project Co shall each comprise five directors. Each JV Shareholder shall, for every 20% of all issued shares in JV Co held by it, be entitled to nominate for appointment and remove one director of JV Co and one director of Project Co. Based on the Shareholders' Proportion, The Link has the right to appoint three (and NFD has the right to appoint two) directors to each of the boards of JV Co and Project Co. The Project Co's board shall implement the decisions of the JV Co's board.

The quorum for board meetings of each JV Group Company shall be two directors, comprising at least one director nominated for appointment by each JV Shareholder. Each JV Shareholder has the right to nominate, once every alternate year, the board chairman of a JV Group Company who will serve for a term of one year. The chairman of the board of a JV Group Company does not have a casting vote.

## 5. Joint Decision Matters

Board decisions of a JV Group Company will be made by simple majority, except where such decision relates to any of the matters summarised below (the **Joint Decision Matters**):

- **Organic change to JV Group Company**
  - amendment to organisational documents of any JV Group Company other than as required by applicable laws;
  - any merger involving any JV Group Company or any disposal of any: (a) shares in Project Co; (b) part of the shareholder loans owing by Project Co to JV Co; or (c) part of the Commercial Development before the second anniversary of the certificate of compliance covering the entirety of the Land;
  - winding-up of any JV Group Company; and
  - issue or create rights to subscribe for/acquire any new shares of any JV Group Company or conversion of any security into any shares of any JV Group Company or alteration of capital structure of any JV Group Company.
- **Decisions relating to key project parameters of the Commercial Development**
  - the first set of master layout plan and general building plans;
  - the variation of construction cost budget involving an increase of over 10% of the original budget;
  - modification to the Land Grant involving deviation from pre-agreed project parameters or payment in excess of HK\$100,000,000; and
  - key appointments of external project personnel and the solicitors handling transactions relating to the Commercial Development.
- **Encumbrances/external commitment/external loan**
  - the creation of any encumbrance or any third party interest over any of the assets of any JV Group Company (including any shares in Project Co and any part of the shareholder loans owing by Project Co to JV Co); and
  - the giving by any JV Group Company of any guarantee or indemnity or acting as surety relating to the performance of the payment or other obligations of any third party.

- **Strategic business decision**
  - decision on or alteration of the market position of the office premises in the Commercial Development as Grade-A offices and any alteration of the overall leasing strategy that is not in line with the then prevailing market position of the office premises in the Commercial Development. The overall planning, strategy and annual budget regarding rentals and other leasing activities of the Commercial Development (including appointment of leasing agent(s)) are (provided they are consistent with the market position of the Commercial Development) not Joint Decision Matters and will be led by The Link and approved by the Management Committee and/or the respective boards of the JV Group Companies.
  
- **Material and non-conflicting legal proceedings of JV Group Company**
  - commence, compromise, settle, release, discharge or compound, or waive any right in relation to any legal proceedings or claims involving an amount exceeding HK\$10,000,000, provided that any legal proceedings or claims with respect to and/or in connection with ordinary debt recovery, small claims not exceeding the aforesaid amount and any affiliate of a JV Shareholder (including, for instance, any legally binding commitment between the Project Management Entity/the Construction Management Entity and Project Co) shall not be regarded as Joint Decision Matters.

All Joint Decision Matters require unanimous approval of all the directors of JV Co, provided that no director shall withhold his approval for a Joint Decision Matter where such Joint Decision Matter is to be approved, effected or consummated: (i) to comply with any requirements of applicable laws binding on or applicable to the JV Group Company concerned, the Land Grant, any legal obligation of any JV Group Company, any legal obligation binding on the Land or the Commercial Development and/or the conditions of relevant approvals from the Government or any other person; or (ii) to give effect to or comply with or as contemplated in the JV Agreement.

If the board of JV Co cannot agree on a Joint Decision Matter within 45 days, any director may refer the deadlock to the Chief Executive Officer of the Manager and the Managing Director of NFD for joint resolution whose decision is binding. In the unlikely event that a joint resolution cannot be reached, any JV Shareholder may exercise its right to dispose of its interest in JV Co in accordance with the transfer mechanism provided for in the JV Agreement.

## 6. The management committee

Project Co shall establish the management committee (the **Management Committee**) consisting of five members. Each JV Shareholder is entitled to appoint the same number of Management Committee members as the number of directors of JV Co which it is entitled to nominate for appointment. Based on the Shareholders' Proportion, The Link has the right to appoint three (and NFD has the right to appoint two) members of the Management Committee.

The Management Committee shall implement the decisions of the respective boards of the JV Group Companies and monitor to ensure that the Commercial Development project is implemented within the parameters agreed in the JV Agreement and in accordance with the terms of the legal documents to which any JV Group Company is a party. Save for certain Joint Decision Matters, the decision of the Management Committee is by simple majority and subject to final determination by the board of Project Co.

## **7. Funding of the Commercial Development project**

The Total Development Costs (including the land premium) and other funding needs of the JV Group Companies shall be funded by the JV Shareholders by way of shareholder loan to the JV Group Companies in accordance with their respective Shareholders' Proportion. Failure by any JV Shareholder to meet its funding obligations shall be an "event of default", and such Defaulter may be forced to sell its interest in JV Co to the Non-Defaulter or to purchase the Non-Defaulter's interest in JV Co in accordance with relevant default provisions that are summarised in section V.10 below.

No financing by banks or any person who is not a shareholder of JV Co (or an affiliate of a shareholder of JV Co) shall be provided to JV Co and/or Project Co, without the prior written approval of both JV Shareholders. The terms and conditions of any approved financing shall also be subject to the prior written approval of both JV Shareholders and compliance with the REIT Code.

## **8. Project management, leasing and property management operations**

- ***Project/construction management***

It is proposed that the Project Management Entity, being a member of the NF Group, will act as the project manager and be responsible for the overall planning and supervision of the Commercial Development project in accordance with the design, timetable and specifications approved by the board of JV Co. In discharging its function, the Project Management Entity will (under the supervision of the board of Project Co and the Management Committee) identify, select and recommend suitable service providers for direct engagement by Project Co (such as architects and other contractors/consultants), advise on the terms of such engagements and monitor the performance/progress of such service providers and the Commercial Development project. The Project Management Entity shall be entitled to charge Project Co a fee of 1% of the Net Construction Cost actually incurred.

It is also proposed that the Construction Management Entity, being a member of NF Group, will coordinate the construction, fitting-out and completion of the Commercial Development, and will engage various building contractors/sub-contractors and suppliers to execute the same. The Construction Management Entity shall be entitled to charge Project Co a fee of 3% of the Net Construction Cost actually incurred.

Under the JV Agreement, the award of construction contracts to a consultant, contractor, sub-contractor and/or supplier shall require the prior written approval of the Management Committee if such contract involves expenditure not exceeding HK\$2,500,000 (in relation to contractors, sub-contractors and/or suppliers) or HK\$1,000,000 (in relation to consultants). The Link shall, through its representation on the Management Committee, ensure that such construction contracts are entered into on an arm's length basis, on normal commercial terms, contain adequate risks ring-fencing measures and in line with best industry practice.

The above NF Construction Entities are also entitled to reimbursement by Project Co of all expenses and costs incurred for the discharge of their respective functions and duties under the PCM Agreements and/or the JV Agreement which are contemplated under the approved yearly budget, pre-approved by the Management Committee and/or Project Co, as well as on-site staff costs of the Construction Management Entity.

The relationship between Project Co and the NF Construction Entities will be governed by the PCM Agreements which are expected to be agreed and entered into between Project Co and the NF Construction Entities as soon as practicable, and in any event within 90 days, following the signing of the JV Agreement (and, in respect of the Construction Management Entity, if the PCM Agreement is not entered into within 90 days or such further period agreed by the JV Shareholders, Project Co is entitled (but not obliged) to engage another qualified main contractor through a competitive process). It is contemplated that pursuant to the PCM Agreements, Project Co will be entitled to exercise its rights with respect to the NF Construction Entities, for instance, to receive progress reports and other documents prepared by or on behalf of a NF Construction Entity, and (subject to cure period if provided) to terminate a PCM Agreement in the event of a material breach of duties by the relevant NF Construction Entity (without prejudice of other rights and remedies under the common law for breach of contract).

In light of the abovementioned experience of the NF Group with regard to construction matters as mentioned in section III above, the Manager is of the view that the NF Construction Entities have the competence, qualifications and financial support to meet their obligations under the PCM Agreements.

In the event a NF Construction Entity breaches its obligations under the relevant PCM Agreement, Project Co shall be entitled to enforce its right to terminate the agreement and commence legal proceedings. Such legal proceedings are specifically excluded from the Joint Decision Matters, and therefore, within the control of The Link through its majority control of the respective boards of the JV Group Companies.

- ***Leasing and operations***

The letting, property management and day-to-day operations of the Commercial Development (including the car parks) shall be handled by Management Committee members nominated by Link SPV under the supervision of the respective boards of the JV Group Company.

The Management Committee members nominated by Link SPV shall (after consulting the Management Committee members nominated by NF SPV) prepare the yearly business plan for approval by the respective boards of JV Co and Project Co.

## **9. Transfer of shares and shareholder loans**

No JV Shareholder shall have the right to dispose any part of its interest in (or shareholder loans to) JV Co before the second anniversary of the completion of the Commercial Development (as evidenced by the issuance of the certificate of compliance by the Government), and in all circumstances, unless it has first offered its entire equity interest in (and shareholder loans to) JV Co to the other JV Shareholder who declines to accept such offer. Such restriction on disposal shall not apply to a transfer by Link SPV or NF SPV to a wholly-owned subsidiary within their respective group. The non-transferring JV Shareholder shall have a tag-along right when the transferring JV Shareholder is proposing to sell its interest to a third party transferee. The transferee of any permitted transfer of shares in JV Co shall enter into a deed of adherence to become bound by the JV Agreement.

After the second anniversary of the completion of the Commercial Development, NF SPV has a right (which may only be exercised once) to require Link SPV to purchase all (but not a part of) the issued shares NF SPV holds in and all its shareholder loans to JV Co at the then fair market value in the circumstances and manner as specified in the JV Agreement.

## **10. Event of default**

An event of default occurs when: (a) a JV Shareholder becomes insolvent; (b) a JV Shareholder fails to fund the Joint Venture at the time and in the manner according to the terms of the JV Agreement; (c) a JV Shareholder breaches certain other provisions of the JV Agreement (for example, restrictions on transfer of shares in JV Co); or (d) (in respect of NF SPV) either the occupation permit or the certificate of compliance in respect of the Land/Commercial Development is not obtained by the date stated in the JV Agreement solely as a result of any wilful default and/or gross negligence of any of the NF Construction Entities.

After the occurrence of an event of default in relation to a JV Shareholder, the Non-Defaulter may, without prejudice to any other rights and remedies available to the Non-Defaulter (for example, its rights and remedies under the common/equity law for breach of contract, including but not limited to monetary compensation and injunction, depending on the specific circumstances), at any time give a written notice to the Defaulter requiring:

- (1) the Defaulter to sell to the Non-Defaulter all shares in JV Co held by the Defaulter together with all shareholder loans owing to the Defaulter and interests accrued thereon which remain unpaid (together, the Defaulter's Interest) at a price equal to 90% of the fair market value of the Defaulter's Interest determined in accordance with the JV Agreement; or
- (2) the Defaulter to purchase from the Non-Defaulter all shares in JV Co held by the Non-Defaulter together with all shareholder loans owing to the Non-Defaulter and interests accrued thereon which remain unpaid (together, the Non-Defaulter's Interest) at a price equal to 110% of the fair market value of the Non-Defaulter's Interest determined in accordance with the JV Agreement.

The Defaulter has no discretion and must comply with the Non-Defaulter's election.

## **11. Duration and termination of the Joint Venture**

Pursuant to the JV Agreement, the Commercial Development shall be held for long-term investment purpose.

The JV Agreement will be terminated at the earliest of: (i) a date agreed between the parties to the JV Agreement; (ii) all shares in JV Co are owned and held by one shareholder; and (iii) the dissolution of JV Co.

## **SECTION VI. RISK FACTORS AND RISK MITIGATION**

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The Manager does not expect the Acquisition and/or development of the Land to result in a material change to the overall risk profile of The Link. However, such activities may involve the following:

- **Risks related to the Joint Venture.** The Joint Venture may involve a number of risks including disputes with NFD in connection with the performance of the obligations of the JV Shareholders under the Joint Venture. These disputes may lead to legal proceedings and may result in damage to The Link's reputation, incurrence of substantial costs and the diversion of resources and management's attention. Serious disputes may also lead to The Link prematurely disposing its interest in the Joint Venture (for example, in the very unlikely event that a deadlock cannot be resolved). Also, there is no assurance that the other JV Shareholder will not commit a default under the JV Agreement.



The Manager has sought to mitigate such risks by clearly delineating the responsibilities of the JV Shareholders in the JV Agreement, and by partnering with the NF Group whose objectives are currently aligned with the Manager, although the occurrence of any of the foregoing risks could still arise and adversely affect The Link's predicted financial return on the Commercial Development. In the unlikely event the Joint Venture is terminated by The Link during the construction phase of the Commercial Development due to an event of default triggered by NFD, The Link may consider partnering with another reputable, suitably qualified and financially sound developer or continue to engage the NF Construction Entities to complete the project, or (if no such partner can be found, or circumstances make it inappropriate to continue with the NF Construction Entities), The Link may exercise its right to sell its shares in JV Co to NFD at a premium to fair market value in accordance with the JV Agreement. Alternatively, if construction of the Commercial Development has been completed, The Link may exercise its right to acquire NFD's interest at a discount to fair market value in accordance with the JV Agreement, and thereafter manage and operate the Commercial Development alone or, subject to compliance with the REIT Code, via a third party management agent.

- **Construction risk.** The progress and costs of developing the Commercial Development may be affected by factors such as shortages of materials, equipment, contractors and skilled labour, labour disputes, construction accidents, natural catastrophes and adverse weather conditions.

By undertaking the Commercial Development, The Link will be exposed to the risk of increased labour and construction costs during various stages of the project. If the costs of labour or construction materials increase significantly, and The Link cannot offset such increase by reducing other costs associated with the project, this may adversely impact the investment return expected of the project. It is hoped that by partnering with the NF Group, an experienced and reputable developer who is familiar with construction and project management, the likelihood and impact of such risk to The Link will be mitigated. Further, the Total Development Costs has built in a buffer to cater for cost overruns.

- **Risk of default of project counterparties.** The NF Construction Entities may undertake other projects and their resources may be diverted, or they may encounter financial or other difficulties, which may cause delay in the completion of the Commercial Development or increase the costs of construction.

As noted above, it is contemplated that pursuant to the PCM Agreements, Project Co will be entitled to receive progress reports and other documents prepared by or on behalf of a NF Construction Entity, or terminate a PCM Agreement in the event of a material breach of duties by the relevant NF Construction Entity. Such rights are intended to mitigate the likelihood of the abovementioned risk occurring. The Link also intends to second staff to Project Co for the purpose of monitoring and supervising, at a working level, the progress, quality and cost aspects of the Commercial Development project. Further, under the JV Agreement, the award of construction contracts to a consultant, contractor, sub-contractor and/or supplier shall require the prior written approval of the Management Committee if such contract involves expenditure not exceeding HK\$2,500,000 (in relation to contractors, sub-contractors and/or suppliers) or HK\$1,000,000 (in relation to consultants). The Link shall, through its representation on the Management Committee, ensure that



such construction contracts shall be entered into on an arm's length basis, on normal commercial terms, contain adequate risks ring-fencing measures and in line with best industry practice.

- **Risk of failure or delays in obtaining governmental approvals.** In order to complete the Commercial Development, various governmental permits, licences, certificates and other regulatory approvals at various stages of the property development process are required. Project Co may encounter problems or delays in obtaining such approvals/permits, or in fulfilling the conditions required for obtaining the approvals/permits. If the approvals/permits or the conditions of those approvals/permits cannot be obtained or fulfilled in a timely manner, or at all, the Commercial Development may not proceed on schedule. In addition, if there is any change in relevant governmental guidelines, rules and regulations relating to the Commercial Development (such as the imposition of additional requirements for obtaining the requisite approvals/permits), the original property development plan of the Commercial Development may need to be revised, leading to additional cost and exposure and delay in project completion.

To mitigate such risks, the Manager has partnered with an experienced and reputable developer (NFD) who is familiar with seeking such approvals, and who (through the NF Construction Entities) will engage qualified professionals and competent contractors.

- **Risk of delay and impact on income.** During the construction phase of the Commercial Development, the Land will not generate any rental income for The Link. This period may be prolonged if completion of the construction phase is delayed. There is also a risk that given the lengthy construction phase (with completion expected on or before 30 June 2020), the commercial property market may deteriorate, in which case The Link's financial return (via rental income) may be less than expected. Although the Manager will take all reasonable steps to avoid delay, this risk may arise due to factors that are beyond the control of the Manager. The reduced rental income received by The Link may adversely impact The Link's liquidity position, financial condition, results of operations and level of distributions to Unitholders.

## **SECTION VII. TOTAL DEVELOPMENT COSTS AND FINANCIAL IMPACT**

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The Total Development Costs are estimated to be approximately HK\$10,541 million and comprise:

- (a) the land premium (HK\$5,860 million, being the consideration for the Acquisition);
- (b) construction costs determined by the Independent Cost Consultant based on: (i) certain specifications and assumptions on various physical attributes of the Commercial Development provided by the Manager to the Independent Cost Consultant (including the area, type of materials, infrastructure, substructure and finishing); and (ii) taking into account a buffer to cater for cost overruns provided by the Manager (which the Manager considers to be prudent and in line with industry practice); and
- (c) other project costs such as financing costs, stamp duty (if any), professional fees and fixtures/fittings as fairly estimated by the Manager in good faith.

The Total Development Costs will be borne by The Link and NFD in accordance with their respective Shareholders' Proportion. The Link's Portion of the Total Development Costs (being approximately HK\$6,325 million based on the above estimate) will be funded from The Link's own cash resources and/or existing debt facilities. The Acquisition and construction of the Commercial Development are not expected to have any material impact on the financial position of The Link from the date of the Acquisition to the date that the Commercial Development is completed. For the expected and potential non-financial impact of the Acquisition, please refer to sections III and VI of this announcement.

Immediately after the acquisition of the Land by Project Co, based on the consolidated financial position of The Link as at 30 September 2014 (as disclosed in the 2014/2015 Interim Report), the pro-forma adjusted ratio of debt to total assets of The Link is anticipated to change from approximately 11.0% to approximately 13.4% assuming: (i) a draw-down of HK\$3,516 million on The Link's existing debt facilities; (ii) an adjustment to include the Appraised Value of the Land in the total assets of The Link as if the acquisition of the Land took place on 30 September 2014; (iii) having taken into account the disposal of five properties by The Link as announced and completed, respectively, on 29 September 2014 and 1 December 2014; and (iv) interim distribution paid by The Link on 9 December 2014.

#### **SECTION VIII. OPINION OF THE BOARD**

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The Board (including the independent non-executive Directors) is satisfied that: (i) the acquisition of the Land by Project Co and construction of the Commercial Development; and (ii) the execution of the JV Agreement and the transactions contemplated thereunder, are at arm's length, on normal commercial terms, and are fair and reasonable and in the best interests of The Link and the Unitholders as a whole. Further, the Board is satisfied that no Unitholders' approval is required under the REIT Code and the Trust Deed for such matters.

#### **SECTION IX. OPINION OF THE TRUSTEE**

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Based on and in sole reliance on the opinion of the Board and the information and confirmation provided by the Manager (and having taken into account its duties under the Trust Deed and the REIT Code), the Trustee has no objection to: (i) the acquisition of the Land by Project Co and construction of the Commercial Development; and/or (ii) the execution of the JV Agreement and the transactions contemplated under the JV Agreement. Further, the Trustee is satisfied that: (a) the acquisition of the Land by Project Co, the construction of the Commercial Development and the Joint Venture are consistent with The Link's investment policy and in compliance with the REIT Code and the Trust Deed; and (b) no Unitholders' approval is required under the REIT Code and the Trust Deed for such matters.

## SECTION X. REGULATORY ASPECTS

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The Link's Portion of the estimated Total Development Costs (including the land premium), being approximately HK\$6,325 million, represents approximately 4.9% of the Gross Asset Value of The Link and is therefore within the GAV Cap and in compliance with the threshold limit under the REIT Code and the Trust Deed.

This announcement is made pursuant to 10.3 and 10.4 of the REIT Code. The Link's Portion of the Total Development Costs represents approximately: (i) 5.2% of the total market capitalisation of The Link (based on the average closing price of the Units on the Stock Exchange for the five business days immediately preceding the date of this announcement); and (ii) 4.9% of the total assets of The Link as at 30 September 2014 (as disclosed in the 2014/2015 Interim Report) after adjusting for the interim distribution paid by The Link on 9 December 2014 and disposal of five properties by The Link announced and completed, respectively, on 29 September 2014 and 1 December 2014. The Link's Portion of the Total Development Costs is less than 15% of the gross asset value of The Link as at 30 September 2014 (as shown in the 2014/2015 Interim Report).

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of the NF SPV, NFD, NF Construction Entities and their respective ultimate beneficial owner(s) is an Independent Third Party. Accordingly, the execution of the JV Agreement, PCM Agreements and the respective transactions contemplated thereunder do not constitute connected party transactions of The Link under the REIT Code.

The Manager has made a submission to the SFC in relation to compliance with REIT Code 7.5(aa) (regarding majority ownership and control of SPV). It has been submitted that The Link will satisfy the regulatory intent of having "majority ownership and control" of each JV Group Company, as the Manager shall be able to exercise control over the management and strategic development of each JV Group Company for the following reasons:

- Link SPV is the majority shareholder in JV Co, which in turn wholly owns Project Co;
- Link SPV may nominate three of the five directors to be appointed to the board of directors of each JV Group Company, and can therefore propose and carry all resolutions of the JV Group Companies (other than those pertaining to Joint Decision Matters), thereby giving the Manager control in respect of such matters;
- the Manager does not believe that the unanimous approval requirement of any Joint Decision Matter would materially adversely affect Link SPV's control over the management and strategic development of the JV Group Companies;

- Link SPV can be regarded to have “negative control” in respect of the Joint Decision Matters because the approval of directors nominated by Link SPV is required for any Joint Decision Matter, including those Joint Decision Matters proposed by NF SPV. In addition, none of the directors of JV Co (whether nominated by Link SPV or NF SPV) can withhold his approval for a Joint Decision Matter where such Joint Decision Matter is: (i) to comply with any requirements of applicable laws binding on or applicable to the JV Group Company concerned, the Land Grant, any legal obligation of any JV Group Company, any legal obligation binding on the Land or the Commercial Development and/or the conditions of relevant approvals from the Government or any other person; or (ii) to give effect to or comply with or as contemplated in the JV Agreement; and
- Link SPV may nominate three of the five members to be appointed to the Management Committee, which (among other things) is responsible for the supervision of the day-to-day operations and management of the JV Group Companies. Further, all matters relating to the letting, management and operation of the Commercial Development shall be specifically handled by the Management Committee members nominated by The Link.

In addition, it is submitted that the Joint Venture with the NF Group will benefit Unitholders by allowing The Link to: (i) leverage on the construction expertise and networks of the NF Group when negotiating construction and supply contracts (through a NF Construction Entity); and (ii) reduce its exposure to the acquisition and development of the Land, which therefore justifies the Joint Venture with the NF Group for the purposes of the note to 7.5(aa) of the REIT Code.

The Manager has also made a submission in respect of REIT Code 7.5(d) (regarding the use of more than two layers of SPVs) for the purpose of facilitating future group reorganisation and disposal of property interests through an intermediate holding company (for example, to achieve savings in transaction costs), subject to the condition that there will be no change to the maximum number of four layers of SPVs used by The Link for holding of the Land and the Commercial Development without further approval of the SFC.

Baker & McKenzie, the Manager’s legal advisers as to Hong Kong law, have issued a legal opinion to the Manager stating that upon completion of the Acquisition, Project Co will on the date of the Land Grant have a good marketable legal and beneficial title to the Land free from encumbrances in compliance with 7.7 of the REIT Code and, subject to the abovementioned restrictions contained in the Land Grant and JV Agreement, have freedom to dispose of the Land in compliance with the REIT Code.

Separately, the Manager will use its best endeavours to ensure that the Project Co will hold good marketable legal and beneficial title in respect of the Commercial Development after it has been completed.

Baker & McKenzie have also issued a legal opinion to the Manager that: (i) describes the factual information set out in section V of this announcement so far as it relates to the terms of the JV Agreement, the equity and profit sharing arrangements of the JV Shareholders, and the restrictions on divestment by The Link of its interest in the Commercial Development; and (ii) confirms that the JV Agreement constitutes legally binding, valid and enforceable obligations of the parties thereto under the laws of Hong Kong.

## SECTION XI. GENERAL

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- **About The Link**

The Link is a collective investment scheme authorised by the SFC and the Units are listed on the Main Board of the Stock Exchange (stock code: 823). HSBC Institutional Trust Services (Asia) Limited is the Trustee of The Link.

The Link, managed by the Manager, currently has a portfolio consisting of 174 properties with an internal floor area of approximately 10.7 million square feet of retail space and approximately 76,000 car parking spaces.

- **About the NF Group**

The NF Group is a privately owned group of companies and business interests under the control of the estate of Mr. Chen Din Hwa (deceased) carrying on business under the trade name of “Nan Fung” which is principally engaged in the business of property development, property investment, construction, property management, investment and financing. The NF Group is generally recognised as one of the leading property developers in Hong Kong.

## SECTION XII. FURTHER UPDATES

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The Manager will provide periodic updates in The Link’s annual and interim reports of the material information concerning the Commercial Development, including the progress of works of the Commercial Development and the extent (in percentage terms) to which the GAV Cap has been applied, and the audit committee of the Manager shall review the same. Also, the Manager will provide timely disclosure on material developments relating to the Commercial Development in compliance with the REIT Code as and when necessary.

## SECTION XIII. DEFINITIONS

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In this announcement, the following definitions apply unless otherwise stated. Also, where terms are defined and used in only one section of this announcement, these defined terms are not included in the table below.

<b><i>2014/2015 Interim Report</i></b>	the interim report of The Link for the six months ended 30 September 2014
<b><i>Acquisition</i></b>	the bidding and acquisition of the Land by the Joint Venture (through Project Co) pursuant to the Tender
<b><i>Appraised Value</i></b>	HK\$5,380 million, being the appraised value of the Land as at 21 January 2015 according to the Valuation Report

<b>Board</b>	the board of Directors
<b>Commercial Development</b>	the development as described in section II of this announcement
<b>Construction Management Entity</b>	a member of the NF Group acting as main contractor for coordination of construction, fitting-out and completion of the Commercial Development
<b>Defaulter</b>	the defaulting JV Shareholder after the occurrence of an event of default in relation to a JV Shareholder
<b>Defaulter's Interest</b>	has the meaning given to this term in section V.10 of this announcement
<b>Directors</b>	the directors of the Manager
<b>GAV Cap</b>	10% of Gross Asset Value, being the limit for conducting property development and related activities pursuant to the Trust Deed
<b>GDP</b>	gross domestic product
<b>Government</b>	the Government of Hong Kong
<b>Gross Asset Value</b>	(for the purpose of calculating the denominator of the GAV Cap) the total gross asset of The Link by reference to its latest published accounts as adjusted for (i) any distribution declared and (ii) published valuation and in a manner similar to the determination of the total assets figure in the context of notifiable transactions under the Listing Rules, with necessary changes but excluding the value of any investment properties under development.
<b>Hong Kong and HK\$</b>	the Hong Kong Special Administrative Region of The People's Republic of China, and Hong Kong dollars (the lawful currency of Hong Kong), respectively
<b>Independent Cost Consultant</b>	being Langdon & Seah Hong Kong Limited, the independent quantity surveyor and construction cost consultant appointed for advising on calculation of construction costs. According to publicly available information, Langdon is a market leading multi-disciplinary cost consultancy and management firm in Asia, with over 3,400 staff in 10 major countries in Asia. The Manager understands that the Independent Cost Consultant has key personnel who are fellows or members of the Hong Kong Institute of Surveyors or the Royal Institution of Chartered Surveyors (Hong Kong Branch) and who are qualified to advise on the calculation of the construction costs

<b><i>Independent Property Valuer</i></b>	being CBRE Limited, the current Principal Valuer (as defined in the REIT Code) of The Link and an independent property valuer (within the meaning of Chapter 6 of the REIT Code) appointed for valuing the Land for the purpose of the Acquisition
<b><i>Independent Third Party</i></b>	an independent third party who is not a connected person (within the meaning of Chapter 8 of the REIT Code) of The Link
<b><i>Joint Decision Matters</i></b>	has the meaning given to this term in section V.5 of this announcement
<b><i>Joint Venture</i></b>	the joint venture between The Link (through Link SPV) and the NF Group (through NF SPV) formed solely for the acquisition and development of the Land through the JV Group Companies
<b><i>JV Agreement</i></b>	the Shareholders Agreement entered into between Link SPV, NF SPV, The Link Properties Limited, NFD and JV Co on 27 January 2015
<b><i>JV Co</i></b>	Assets Guard Holdings Limited, a company incorporated in the British Virgin Islands and formed for the purpose of the Joint Venture in which 6 issued shares (representing 60% of its issued share capital) are owned by The Link (through Link SPV) and the other 4 issued shares (representing the balance of 40% of its issued share capital) are owned by NFD (through NF SPV)
<b><i>JV Group Companies</i></b>	comprising JV Co and Project Co, and <b><i>JV Group Company</i></b> is any one of them
<b><i>JV Shareholders</i></b>	being Link SPV and NF SPV, the only registered shareholders of JV Co, and <b><i>JV Shareholder</i></b> means any one of them
<b><i>Land</i></b>	the site at Kowloon East, Hong Kong and to be registered in the Land Registry as New Kowloon Inland Lot No. 6512
<b><i>Land Grant</i></b>	the Memorandum of Agreement and Conditions of Sale and sale plan thereto in respect of the Land in the form as annexed to the notice of Tender which is to be entered into by Project Co with the District Lands Officer, Kowloon East (for and on behalf of the Chief Executive of the Government) in accordance with the requirements of the notice of the Tender



<b>Link SPV</b>	Sky Master Global Limited, a SPV wholly-owned by The Link and established in the British Virgin Islands for holding The Link's 60% interest in JV Co
<b>Link's Portion</b>	being that portion of the Total Development Costs borne and to be borne by The Link in accordance with the Shareholders' Proportion
<b>Listing Rules</b>	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
<b>Management Committee</b>	the management committee of Project Co
<b>Manager</b>	The Link Management Limited, the manager of The Link
<b>Net Construction Cost</b>	the costs for all construction, fitting-out and completion of the Commercial Development, exclusive of land premium or Land Grant modification fees, loan charges and expenses, marketing and legal expenses, professional or consultancy fees relating to construction works, expenses for works post-issuance of certificate(s) of practical completion or as required by tenants, insurance premiums and any amounts payable and/or reimbursable to the NF Construction Entities in accordance with the provisions of the JV Agreement
<b>NF Construction Entities</b>	collectively, the Project Management Entity and the Construction Management Entity, and each a <b>NF Construction Entity</b>
<b>NF Group</b>	a privately owned group of companies and business interests under the control of the estate of Mr. Chen Din Hwa (deceased) carrying on business under the trade name of "Nan Fung" which is principally engaged in the business of property development, property investment, construction, property management, investment and financing
<b>NF SPV</b>	Dual Success Investments Limited, an indirect wholly-owned subsidiary of NFD incorporated in the British Virgin Islands, which holds NFD's 40% interest in JV Co
<b>NFD</b>	Nan Fung Development Limited
<b>Non-Defaulter</b>	the non-defaulting JV Shareholder after the occurrence of an event of default in relation to a JV Shareholder
<b>Non-Defaulter's Interest</b>	has the meaning given to this term in section V.10 of this announcement



<b><i>PCM Agreements</i></b>	collectively, the project management agreement and construction management agreement to be entered into between Project Co and any NF Construction Entity governing the rights and obligations of the parties thereto, and <b><i>PCM Agreement</i></b> means any one of such agreements
<b><i>Project Co</i></b>	Century Land Investment Limited, a company incorporated in Hong Kong and formed for the purpose of bidding for and then developing the Land the entire issued share capital of which (being 1 issued share) is owned by JV Co
<b><i>Project Management Entity</i></b>	a member of the NF Group acting as the project manager and responsible for the overall planning and supervision of the Commercial Development project
<b><i>REIT</i></b>	real estate investment trust
<b><i>REIT Code</i></b>	the Code on Real Estate Investment Trusts published, and as may be amended or supplemented from time to time, by the SFC
<b><i>SFC</i></b>	the Securities and Futures Commission of Hong Kong
<b><i>Shareholders' Proportion</i></b>	the respective interest of The Link (being 60% through the Link SPV) and NFD (being 40% through the NF SPV) in JV Co
<b><i>Special Purpose Vehicle or SPV</i></b>	a special purpose vehicle that is owned and controlled by The Link in accordance with the REIT Code and the Trust Deed
<b><i>Stock Exchange</i></b>	The Stock Exchange of Hong Kong Limited
<b><i>Study</i></b>	has the meaning given to this term in section III.A of this announcement
<b><i>Tender</i></b>	the tender for the Land submitted by the Joint Venture (through Project Co) in response to the public tender notice by the Government dated 5 December 2014
<b><i>The Link</i></b>	The Link Real Estate Investment Trust, a collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) whose Units are listed on the Stock Exchange, and where the context requires, includes the Special Purpose Vehicles and/or companies owned and/or controlled by it

<b><i>Total Development Costs</i></b>	the total project costs in relation to/associated with the development of the Land and the completion of the Commercial Development (inclusive of the costs for the acquisition of the Land, the development or construction cost, financing cost, stamp duty and professional fees) which is currently estimated at HK\$10,541 million, borne and to be borne by The Link and NFD in accordance with their respective Shareholders' Proportion
<b><i>Trust Deed</i></b>	the trust deed dated 6 September 2005 between the Trustee and the Manager constituting The Link, as amended and supplemented by eleven supplemental deeds dated 4 November 2005, 8 November 2005, 16 January 2006, 21 November 2006, 13 July 2007, 23 July 2007, 5 October 2009, 23 July 2010, 25 July 2012, 18 February 2014, and 15 January 2015, respectively
<b><i>Trustee</i></b>	HSBC Institutional Trust Services (Asia) Limited, in its capacity as the trustee of The Link
<b><i>Unit(s) and Unitholder(s)</i></b>	unit(s) of The Link and holder(s) of the Unit(s), respectively
<b><i>Valuation Report</i></b>	valuation report on the Land dated 23 January 2015 by the Independent Property Valuer for the purpose of the Acquisition

By order of the board of directors of  
**The Link Management Limited**  
**(as manager of The Link Real Estate Investment Trust)**  
**Ricky CHAN Ming Tak**  
*Company Secretary*

Hong Kong, 27 January 2015

*As at the date of this announcement, the Board of the Manager comprises:*

*Chairman (also an Independent Non-Executive Director)*

Nicholas Robert SALLNOW-SMITH

*Executive Directors*

George Kwok Lung HONGCHOY (*Chief Executive Officer*)

Andy CHEUNG Lee Ming (*Chief Financial Officer*)

*Non-Executive Director*

Ian Keith GRIFFITHS

*Independent Non-Executive Directors*

William CHAN Chak Cheung

Eva CHENG LI Kam Fun

Anthony CHOW Wing Kin

May Siew Boi TAN

Peter TSE Pak Wing

Nancy TSE Sau Ling

David Charles WATT

Richard WONG Yue Chim

Elaine Carole YOUNG