

**Legislative Council Panel on Financial Affairs**

**Financial issues relating to the listing of  
The Link Real Estate Investment Trust**

This paper sets out the response of the Housing, Planning and Lands Bureau and the Housing Authority (HA) to the questions raised in the letter dated 13 January 2005 from the Clerk to Panel to the Secretary for Housing, Planning and Lands.

**(1) Appointment of Mr Paul Cheng as a Senior Advisor to the Deutsche Bank's Asia Pacific Regional Advisory Board on 1 April 2005**

Response to the questions on this matter should be provided by Mr Paul Cheng and The Link Management Limited (The Link).

**(2) Appointment of Mr Paul Cheng as the Chairman of the Board of Directors of The Link on 1 April 2005**

- (a) As Deutsche Bank was not involved in the IPO preparatory work or in providing services to The Link or The Link Real Estate Investment Trust (The Link REIT), there was no question of conflict of interest between Mr. Paul Cheng's advisor role with Deutsche Bank and his role as Chairman of The Link's Board of Directors. Hence, HA simply took note of the information provided by Mr Cheng about his Deutsche Bank appointment.
- (b) Although the appointment of Mr Paul Cheng as an independent non-executive director and the Chairman of The Link's Board was formally made by the Board, HA, being the sole shareholder of The Link before the listing of The Link REIT, had the final say on the appointment. When the appointment of Mr Cheng was made, Mr Leung Chin-man, the then Director of Housing, was a member of the Board.

In considering Mr Cheng's suitability for appointment to the Board, HA took into account his credentials and previous public and private sector experience. No account was taken of his adviser role with

Deutsche Bank. As Deutsche Bank was not involved in the IPO preparatory work or in providing services to The Link or The Link REIT, the question of conflict of interest between Mr. Paul Cheng's advisor role with Deutsche Bank and his role as Chairman of The Link's Board did not arise.

**(3) Non-disclosure of Mr Cheng's advisor role with Deutsche Bank in the Offering Circular in the IPO for The Link REIT**

HA considered that Mr Paul Cheng's advisor role with Deutsche Bank was not material information that required disclosure in the Offering Circular. Hence, HA did not demand this information must be disclosed in the Offering Circular. Whether or not this role should be included in the personal profile of Mr Cheng in the Offering Circular was a matter for Mr Cheng to decide.

**(4) Non-declaration of Mr Cheng's advisor role with Deutsche Bank during the meeting on 19 November 2005 to decide the pricing and allocations to investors for The Link REIT IPO**

Mr Cheng informed HA and The Link about his adviser role with Deutsche Bank shortly before his chairmanship with The Link's Board took effect on 1 April 2005. The Link included Mr Cheng's advisor role with Deutsche Bank in his profile published on The Link's official website on 1 April 2005.

Deutsche Bank was a subscriber of units of The Link REIT during The Link REIT IPO. Mr Paul Cheng did not remind The Link's Board of his adviser role with Deutsche Bank when the Board met to discuss, among other matters, pricing and allocation of units to subscribers. To this extent, the question emerged as to whether this non-declaration had prejudiced decision making by the Board and whether Deutsche Bank had been given any unfair advantage. We have carefully examined the matter and are satisfied that in the circumstances of the case, allocations to subscribers under the IPO were made objectively and impartially, and the non-declaration by Mr Paul Cheng of his advisor role with Deutsche Bank did not have any impact on the outcome of the allocations. An account of our findings were set out in the Information Note considered by the

Financial Affairs Panel on 14 December 2005. We do not consider that any follow-up action is necessary on this matter.

**(5) Review of disclosure requirements for significant unit-holders of The Link REIT**

We have no comment on this matter.

**(6) Government's policy on asset divestment**

On the questions of whether the Government should remain the largest shareholder, and whether a limit on shareholding by individual investors should be imposed after the divestment of Government assets, each case is considered on its own merits.

In the case of the divestment of HA's retail and car-parking facilities, HA did not retain any equity interest in The Link REIT or The Link after the divestment, on the following grounds -

- A key objective of the divestment is to enable HA to withdraw from commercial operation. HA's retention of any interest in The Link REIT or The Link after the IPO would go against this objective.
- Should HA retain any interest in The Link REIT or The Link after the IPO, investors may doubt The Link's ability to operate along commercial principles without any interference from HA. This will undermine the proceeds that HA would get from the IPO.

As regards the idea of imposing a unit-holding limit on any single unit-holder, this was considered by HA in designing the structure of The Link REIT, but was not pursued. Any such limit would have been arbitrary, and technically one could not effectively assure that concentration of ownership of units would not occur, either through off-shore nominee companies or through concerted action. Additionally, if set at a low level, the limit would have impacted negatively on HA's ability to realize full value of the assets through the IPO.

As we explained in the Information Note considered by the Panel on 14 December 2005, HA had taken into account the multiple layers of

protection available to a REIT in designing the divestment vehicle, with a view to addressing concerns about one or a group of investors acquiring a controlling interest in The Link REIT.

Housing, Planning and Lands Bureau  
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