

The Link Real Estate Investment Trust

Submission to The Legislative Council
Panel on Housing

28 September 2009



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Introduction



Mission

- Provide quality Shopping Centres for the benefit of our retailers, customers and the Hong Kong communities we serve
- **Management is focused to:**
 - Maintain business alignments with our retailers, customers, and other stakeholders
 - Deliver sustainable distributions and growth in capital returns to our owners

Corporate

- **100%** publicly listed REIT with nil HA ownership
- **27,000** investors – many are local investors
- Largest Shareholder – TCI – **11%** (down from 18.5%)
- **11** Board members:
 - 9 independent/non-executive directors
 - No director representation from TCI or CapitalLand

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Introduction



Portfolio

- Large portfolio covering **11,700** leases, **11 million sq. ft.** of retail space across **151** Shopping Centre's adjacent to **40%** of HK's population, **80,000** carpark spaces
- Investing **HK\$2.9Bn** capital committed into Hong Kong for refurbishment - this programme is ongoing
- LINK is a major employer in HK
 - Directly increasing our headcount by 50%
 - LINK and contractor staff – estimate 5,500
 - Over 5,000 Construction Staff
 - Our retailers also employ many thousands of workers

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Asset Enhancement Initiatives (AEI)



- **HK\$343.81m** completed
 - **HK\$1.12B** of projects currently under construction
 - **HK\$1.39B** in planning stage
 - Creates over 5,000 construction jobs
 - Creates improved retail facilities for the people of Hong Kong
- HK\$2.9billion** Pipeline

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Asset Enhancement Initiatives (AEI)



Respondents conclusions **positive** – independent surveys show favorable response towards the enhancement projects in public housing Shopping Centres managed by The LINK.

- **More than 80%** agreed for The Link's Shopping Centres to introduce more new shops and restaurants.
- **About 65%** agreed the change of tenants in The Link's Shopping Centres will meet the customer needs in a better way.
- **Over 70%** agreed the renovated shops and restaurants can enhance the attractiveness of the Shopping Centres.
- **Nearly 60%** agreed that renovating the shops and restaurants will attract them to spend more in the Shopping Centre.

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Asset Enhancement Initiatives (AEI)

Continue to focus on the Customers

- Management's approach towards asset repositioning is to **undertake independent research to determine what types of retailers that the customers want to see in our shopping centres.**
- This research seeks to **develop a viable leasing strategy and optimal trade mix to generate higher customer satisfaction** together with a successful and sustainable retail businesses.

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2. Asset Enhancement – Lok Fu

Before



After



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2. Asset Enhancement – Lok Fu

Before



After



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2. Asset Enhancement – Wong Tai Sin

Before



After



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2. Asset Enhancement – Wong Tai Sin



Before



After



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2. Asset Enhancement – Fu Tung



Before



After



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2. Asset Enhancement – Fu Tung

Before



After



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3. Asset Enhancement – Wo Che

Before



After



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3. Asset Enhancement – Wo Che

Before



After



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3. Asset Enhancement – Kwai Fong

Before



After



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3. Asset Enhancement – Kwai Fong

Before



After



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3. Asset Enhancement – Cheung Fat

Before



After



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3. Asset Enhancement – Cheung Fat

Before



After



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3. Issues Raised by LegCo Panel

Title Transfer

Background

- 180 properties – beneficial interest of all the properties was assigned to The Link at IPO.
- Legal Title of 100 properties were transferred at IPO. Title to 80 properties were planned to be transferred by mid 2008. (22 were transferred by the target date – mid 2008)
- To date only 40 of the 80 have been transferred to The Link.
- Timetable for the remaining 40 is mid 2010. The Link will assist in anyway possible to ensure that this timetable is met. – **Legal Title is very important to us.**

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3. Issues Raised by LegCo Panel

Title Transfer

Title transfer is a complex matter

- Involves government creating a lease and granting it to HA.
- Out of the 40 properties still to be transferred, Government has yet to grant 27 titles to HA, therefore the process of transfer to The Link cannot even commence.
- The properties are also complex as they are multi use and delineating the ownership boundaries between the parties is difficult

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3. Issues Raised by LegCo Panel

Title Transfer

- The Link understand that the transfer of the titles has also be hindered by new ordinances, rules and regulations which have been implemented whilst the transfer process has been underway.
- Examples: -
 - Changes to guidelines to DMCs in 2006/07,
 - Changes under the BMO in 2007 and changes to calculation of GFA and site coverage
 - Changes to planning requirements on height restrictions imposed by the Planning and Highways Department.
- None of these were anticipated when the original timetable was drafted

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3. Issues Raised by LegCo Panel

Title Transfer

Way forward:

- The Link will ensure that as soon as we received the assignment and DMC's from HA we will respond within the time period set by HA.
- Additionally, The Link will continue to assist HA in anyway possible to speed up the process. If necessary, The Link is committed to appointing additional resources to our Title Transfer Team.

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Estate Common Area (ECA)

Estate Common Area (ECA)

The Link's Principle

- To pay all bills when due
- The Link has fully accrued for all ECA charges
- As a responsible company we have bill payment approval process which is continually being streamlined.

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Estate Common Area (ECA)



Estate Common Area (ECA)

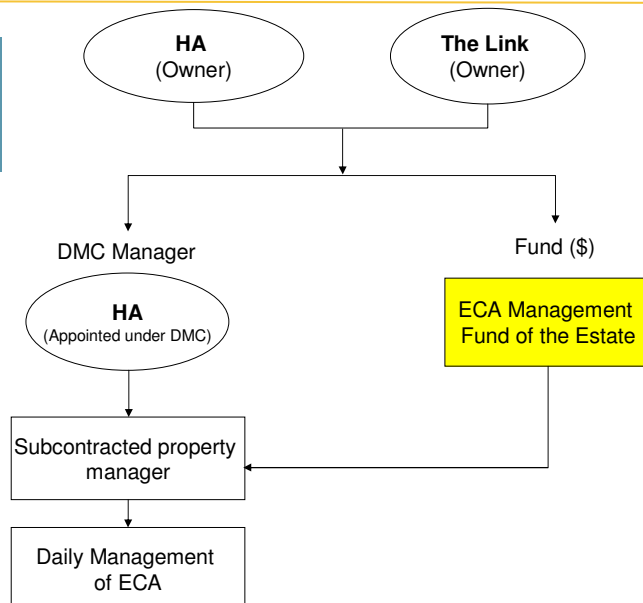
- As defined in the individual Deed of Mutual Covenant (DMC) of the particular estate
- Being any areas, systems, devices and facilities of the Estate intended for common use and benefit of the Estate as a whole
- Examples include :
 - Estate roads
 - Emergency vehicular access
 - Pavement and ramps
 - Landscaped / garden areas

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Estate Common Area (ECA)



Estate Common Area (ECA)



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Estate Common Area (ECA)



Respective Responsibilities

- Owners
 - Being HA and The Link
 - Both contribute monthly to the ECA management fund
 - Expenses include: Scheduled maintenance, cleaning, security, water, electricity and property management services.
- DMC Manager
 - Being HA
 - Maintenance of the ECA Management Fund
 - Prepare annual budget for owners' approval
 - Responsible for the daily management of ECA

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Estate Common Area (ECA)



ECA Management Fund

- Contributed by both owners
- Separate bank accounts
- Can solely be used for the specific Estate's ECA spending
- Subject to annual audit

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Estate Common Area (ECA)



Payment of ECA fees

Complications leading to delays:-

- **91 cheques** to different contractors for each estate
- The ECA Manager prepares the budget before the financial year and revises it during the year.
- Audit of ECA account is not fully up to date, such that surpluses in ECA accounts have not been verified.
- **The Link processes 45,000 invoices and issues approximately 9,000 cheques annually.**

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Estate Common Area (ECA)



Payment of ECA fees

- All payments owing to The ECA Fund up to September 2009 have been settled
- Cheques for October 2009 already issued
- Way forward
 - DMC Manager to issue next month's demand notes to owners at least 5 working days before due day (ie 1st of each month)
 - The Link to pay on the 1st working day of each month despite that there is a 30-day grace period as specified in the DMC
 - The Link to make direct payments into the respective ECA management fund accounts

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