

**SECRETARY FOR HOUSING, PLANNING AND LANDS** (in Cantonese):  
Madam President, I am very glad to have this opportunity here in the Legislative Council today to discuss with Members the plan of the Housing Authority (HA) to divest its retail and car-parking facilities, and to respond to the concern in the community about this project.

First of all, I must thank the President for allowing me to speak twice. I will first explain and analyse the background of the divestment project and respond to a number of concerns expressed in the community. Then, I will listen carefully to the views of Members and after that, I will give a detailed response to the speeches of Members.

The proposal of the HA to divest its retail and car-parking facilities was first proposed by a consultant commissioned by the HA in 2000. Later, the proposal was also recommended for implementation in the Report on the Review of the Institutional Framework for Public Housing published by the Government in June 2002. To further study the proposal, the HA then commissioned consultants to look into various options and to make recommendations on the way forward.

In the policy agenda published in January 2003, the Government announced that an assessment would be made of the various divestment options. In July 2003, the HA approved in principle the divestment project and set up a Supervisory Group on Divestment (SGD) to formulate and implement the

relevant plans and to steer the implementation of the project. The Government subsequently submitted a Legislative Council Brief to the Legislative Council. We later attended five meetings of the Legislative Council Panel on Housing in November 2003, December 2003, May 2004, July 2004 and November 2004 to listen to members' views on the divestment.

The main objective of the HA's divestment of its retail and car-parking facilities is to enable the HA to withdraw from commercial operation, so that it can focus on its function as a provider of subsidized public housing. Divesting the relevant facilities for private ownership and operation is consistent with the general policy objective of "small government, big market", and will help enhance the cost-effectiveness of the operation of these facilities to the benefit of the commercial tenants and residents. Besides, the HA can channel the proceeds from divestment valued at some \$32 billion for the construction of public rental housing flats to alleviate the dire financial hardships faced by the HA in the short to medium term, so that the Government and the HA can have more time to identify ways to tap new sources of revenue and cut expenditure, with a view to resolving the underlying financial difficulties of the HA.

With the consent of the SGD, the divestment will be implemented through the establishment of a Real Property Investment Trust (The Link REIT) which will hold the HA's retail and car-parking facilities to be divested and will be managed by a new company established for the purpose, namely, The Link Management Limited (The Link Management). This company will be beneficially owned by unit holders of The Link REIT and held in trust by The Link REIT's trustees. The Link REIT is expected to be listed in the Hong Kong Stock Exchange on 16 December.

There are mainly three areas of concerns about the divestment project in the community: First, as mentioned by Mr Albert CHENG just now, its impact on commercial tenants; second, the valuation of assets, as also mentioned by Mr Albert CHENG; and third, the allocation ratio between institutional investors and retail investors, which was also mentioned by Mr CHENG.

The HA commenced an extensive consultation exercise immediately after making the decision to divest its retail and car-parking facilities. Apart from sending out leaflets to all commercial tenants and other concerned parties to inform them of the key features and timetable of the divestment project, the HA has also met various commercial tenant groups from time to time to update them

on the project progress and listen to their views. For example, in July and August last year, colleagues in the Housing Department (HD) met with major commercial tenant organizations in groups, and in December last year, the SGD also met with major commercial tenant organizations in two groups. Moreover, the representatives of the HA also attended meetings of the District Councils (DCs) upon the request of individual DCs to listen to their views.

After the establishment of The Link Management, the HA has given it the views collected through various channels for its detailed consideration. The Link Management has clearly stated that it attaches importance to communication with commercial tenants, in order to forge a close partnership with commercial tenants and to work in concert with them for more effective operation of the retail and car-parking facilities. Since he took office in July this year, Mr Victor SO, the Chief Executive Officer of The Link Management, has held meetings with commercial tenant groups and commercial tenants in various districts to discuss with them issues of common concern, with the objective of reaching a consensus.

We believe that on the basis of partnering and mutual benefits between The Link Management and commercial tenants, the reasonable demands of the commercial tenants can certainly be dealt with properly and hence a win-win situation achieved. The Link Management and the Hong Kong Public Housing Estate Shop-operators Union which represents 7 000-odd commercial tenants in public housing estates have already reached a preliminary consensus on four general principles in respect of tenancy renewal, rental policy, industry policy and termination of contract. Both sides have also agreed to continue their dialogue on such basis.

Many commercial tenants have expressed concern over the future tenancy arrangement to be made by The Link Management. They are particularly concerned about whether The Link Management will increase rents substantially to the neglect of the market discipline. But as stated in the Offering Circular of The Link REIT, rent increase is not a main objective in the business plan of The Link Management. Its prime objective is to cut expenditure and improve the economic efficiency of the shopping centres by, among other things, stepping up publicity and promotion, improving the environment of the shopping centres, and attracting more customers to boost patronage to commercial tenants. It is only on these premises that there is room for The Link Management to adjust the rent in accordance with the business situation of individual trades and industries.

In the Offering Circular The Link Management has proposed a series of measures on operational enhancement. We believe these measures will not only benefit The Link Management. They will also benefit the commercial tenants, car park users and even the general consumers, including public housing tenants.

On asset valuation, some Members said that in divesting its retail and car-parking facilities, the HA is selling its assets at "dirt-cheap" prices. Honourable Members, this is a very serious allegation and most unfair remark.

The HA absolutely will not sell its assets at prices below the market level. Asset valuation is very important in the monitoring of The Link REIT. The Real Estate Investment Trust Code (the REIT Code) of the Securities and Futures Commission has set out stringent requirements on asset valuation to protect investors. In accordance with the REIT Code, the HA has commissioned an independent property valuer to conduct an independent valuation of the assets to be divested. According to the independent valuation, the 180 retail and car-parking facilities in the divestment portfolio have a total market value of \$30.85 billion, with the retail and car-parking facilities accounting for \$24.5 billion and \$6.35 billion respectively.

The valuation is conducted by the independent valuer in accordance with the valuation standards stipulated by the SFC using two methods. One was based on the annual discounted cash flow from the net income, whereas the other was based on capitalization of the net rental income. This is mainly to take into account the characteristic of The Link REIT holding real estate properties for lease, which is a common international practice. In arriving at its valuation, the independent valuer has made reference to recent sales and leasing transactions of comparable properties to ensure that the valuation made with these two methods is in line with the market rules.

The HA has provided statistics to the valuer and examined the assumptions adopted in the valuation. Besides, in the course of the valuation, colleagues of the HD have also done their utmost to provide detailed explanation and information to the valuer, in order to gain the recognition of the valuer. However, the HA cannot influence the relevant work in the process and the conclusion of the valuation. The valuer commissioned by us enjoys a good status and reputation in the trade. It has conducted the valuation in a very detailed and stringent manner and has made independent decisions on the valuation. The Joint Global Co-ordinators commissioned by the HA and the

independent financial advisers of the HA have also examined the relevant statistics and assumptions in the valuation. They have come to the view that the valuation is reasonable and agreed that it is soundly based.

As for the allocation ratio between institutional investors and retail investors, the initial public offering of The Link REIT will include global offering and Hong Kong public offering. Global offering will target at local and foreign institutions as well as professional and other investors, whereas the Hong Kong public offering will mainly target at local retail investors. According to the initial allocation ratio that has been published, 90% of the total number of units will be allocated for global offering, whereas the remaining 10% will be for public offering in Hong Kong. The ratio of 90 to 10, and even 95 to 5 as in other similar offering exercises, has been commonly adopted in a vast majority of large-scale initial public offering exercises in recent years. I must emphasize that this ratio will generally be revised depending on the subscription rate.

In fact, the Offering Circular of The Link REIT has clearly provided for a clawback mechanism. If the units are oversubscribed by over 15 times under the Hong Kong public offering, then units must be reallocated to the Hong Kong public offering from the global offering, so that the total number of units available under the Hong Kong public offering will be no less than 30% of the units available in the public offering. The more the number of units oversubscribed, the higher the minimum percentage of units to be reallocated for subscription under the Hong Kong public offering. Given that the clawback mechanism only provides for the minimum percentage of reallocation, the HA absolutely has the flexibility to reallocate a higher percentage of units for the Hong Kong public offering. Here, I can assure Members that the HA will, in the light of the actual situation of oversubscription under the Hong Kong public offering, allocate a greater proportion of the units for retail investors in Hong Kong.

There is the view in the community that all the units should be allocated for retail investors. Our view is that international or institutional investors should not be totally excluded from the public offering. The allocation of an appropriate proportion of units to institutional investors who are expected to hold the units for a longer time will be conducive to price stability in the future. It will also be beneficial to retail investors holding the units and to the order of transactions in the market. Moreover, we must not neglect the fact that Hong

Kong is an international financial centre, and in the course of the listing of a fund, we must allocate part of the units to overseas or institutional investors. This is in line with the market expectation and will make us worthy of our position as an international financial centre.

The scale of this divestment project of the HA is the largest of all privatization projects in Hong Kong. Furthermore, The Link REIT is the first Real Estate Investment Trust in Hong Kong and the largest listing project in the world involving a single Real Estate Investment Trust. We have been working jointly with many professional consultants and under the monitoring of the SGD, we will endeavour to do the best we can.

We trust the divestment project will give play to the potentials of the shopping centres and car parks of the HA and hence open up better business opportunities for commercial tenants. All in all, the divestment project will bring an all-win situation for the Government, the real estate and financial services markets, commercial tenants, as well as the people of Hong Kong.

Thank you, Madam President.