

Opening statement by Secretary for Housing Planning and
Lands at Special Meeting of Legco Panel of Housing

Following is the opening statement by the Secretary for Housing,
Planning and Lands, Mr Michael Suen, at the Special Meeting of the
Legco Housing Panel today (October 20):

Chairman and Members,

I am pleased to brief Members of the Legco Housing Panel today
on the latest progress of the divestment project and the preparatory work
for the IPO of The Link REIT.

As the Housing Authority (HA) announced on September 6, 2005,
it is intended that, subject to satisfying all regulatory and approval
requirements, an offering circular for the re-launched IPO will be issued
in November, 2005, and the listing of The Link REIT will be completed
before the end of 2005.

Instead of repeating what has already been said in the paper, I
would like to update Members, as far as permissible within the regulatory
framework, on some arrangements which may be of interest to the Panel
and the public.

(a) Target of allocation

First of all, I would like to talk about HA's target of allocation. In
the first IPO of The Link REIT last December, the investors' response
was enthusiastic. About 57% of the units were ultimately allocated to
retail investors under the Hong Kong Public Offering (HKPO), and about
8% were ultimately allocated to Hong Kong MPFs under the so-called
International Offering (which targets both local and overseas institutional
investors). Combined, that made a total of about 65% to Hong Kong
investors.

For the relaunched IPO, HA targets to allocate units to the HKPO
with a percentage share no less than that last time, dependant upon the
strength of interest in the HKPO. Similarly, within the International

Offering, HA again intends to favour MPFs in allocations.

Moreover, in the 2004 IPO, it was possible to allocate units to every valid application under the public offer. Although that cannot be guaranteed in the relaunched offering, that remains the target depending on the overall numbers of applications.

(b) Preferential allocation to successful subscribers in the 2004 IPO

Secondly, HA noted the requests of some successful subscribers in the 2004 IPO for preferential allocation in the relaunched IPO. Although there is no legal obligation to give preference to investors who received an allocation of units pursuant to the 2004 IPO, HA carefully considered the pros and cons of the idea. In order to be fair and equal to all retail investors, HA has decided not to give any preferential allocation. Moreover, since it is HA's target, as I mentioned above, to allocate units to every valid application under the public offer, HA does not consider it necessary to give any preferential allocation to the successful subscribers in the 2004 IPO. It is hoped that every valid application will be allocated at least one lot.

(c) Cornerstone investors

Thirdly, cornerstone investors were involved in the 2004 IPO to secure validation for the investment case and early demand for units. The actual experience of the 2004 IPO has shown that demand for units is broadly based. For the relaunch, HA decided not to appoint any cornerstone investors. This would allow HA a greater flexibility to allocate more units to other investors, including the retail investors and MPFs.

(d) Portfolio and property valuation

Fourthly, I would like to talk about the divestment portfolio and the property valuation. As HA's announcement on September 6, 2005 has reiterated, the portfolio of the 180 retail and carparking facilities for divestment will remain unchanged. For the property valuation required for the relaunched IPO, HA will continue to use the same independent valuer, namely CBRE, and the same methodology, which follows the

stringent standard set out in the Code on REIT and the international practice for valuation of REIT IPOs. It should be reiterated that there is no question of HA selling the properties cheap. The properties will be sold at a good price favorable to the HA. (「善價而沽」).

(e) Litigation risks for the relaunched offering

Fifthly, in the light of the experience last year, it would not be surprising for the disclosure of litigation risks to be a key issue of concern for the relaunched offering. Hong Kong is a place with rule of law, and no one, including the Government and HA, could entirely preclude the possibility of further legal attacks - even after the Court of Final Appeal (CFA) has unanimously confirmed that the HA plainly has the power to divest its retail and carparking facilities. Though we all consider that such possibility is low, we could not rule it out. To prepare for the relaunched IPO, the legal advisers have done a lot of research work in the past months. Legal opinions have been obtained from eminent Senior Counsel in Hong Kong and London. HA is prepared to deal with any possible legal challenges that may come up. There will be appropriate disclosure in the Offering Circular for the relaunched IPO on the risks of possible legal challenges. HA will also put in place contingency measures to deal with such challenges. One of the measures under consideration is the provision of "withdrawal rights" to investors, and we are consulting the brokerage community on this.

Closing remarks

In closing, I should also mention that the Government fully supports HA's divestment project, which is in line with Government's basic policy of maintaining "a big market and a small government". The Government is confident that HA can take forward the divestment leading to a successful listing of The Link REIT.

My colleagues and I would be happy to answer Members' enquiries. Thank you.

Ends/Thursday, October 20, 2005