

Legislative Council Panel on Housing

Progress on Divestment of Housing Authority's Retail and Carparking Facilities

Purpose

This paper briefs Members on the progress of the divestment of the Housing Authority (HA)'s retail and car-parking (RC) facilities.

Background

2. Last December, since the judicial review challenge initiated by Madam Lo Siu-lan (together with one other person) against HA's statutory power to divest its RC facilities could not reach finality¹ before the scheduled listing date of The Link Real Estate Investment Trust (The Link REIT), the initial public offering (IPO) of The Link REIT lapsed. HA stated then that it would continue with the divestment project, and that it would strive to clear all legal impediments and, upon the conclusion of the legal proceedings, prepare for a re-launch of the IPO as soon as practicable.

3. The Court of Final Appeal (CFA) ruled unanimously on 20 July 2005 that HA plainly has the power to divest its retail and carparking facilities. HA announced on 6 September 2005 (copy of the announcement at the Annex) the decision to re-launch the global offering of units in The Link REIT to implement HA's decision (made on 24 July 2003) to divest its RC facilities, and its intention 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. It was further announced on 6 September 2005 that HA entered into agreements for the transfer of the properties to be divested for the purposes of the re-launched global offering, subject to the closing of the re-launched global offering. On completion of the relaunched global offering, HA will cease to own the portfolio to be divested.

4. Preparatory work on various work streams has been

¹ The Court of First Instance dismissed the judicial review application on 14 December 2004. The Court of Appeal dismissed Madam Lo's appeal on 16 December. Madam Lo had the right to apply for leave to appeal to the Court of Final Appeal within a specified period which extended beyond the deadline date for the listing of the Link REIT.

progressing well. The following paragraphs outline the progress made to date.

Divestment strategy

5. HA's decision to effect the divestment by the IPO of The Link REIT remains unchanged. The 180 properties in the divestment portfolio will also remain unchanged. Full details of the properties to be divested, including 149 integrated retail and car park facilities, two standalone retail facilities and 29 standalone carpark facilities, are set out in HA's announcement dated 6 September 2005 and may be inspected on HA's website / at the HA Headquarters.

Link Management Ltd taking over management of RC facilities

6. Since 1 March 2005, The Link Management Ltd (The Link), the manager of The Link REIT, has taken over from HA the day-to-day management of the majority of the 180 RC facilities within the divestment portfolio. The Link remains a wholly owned subsidiary of HA before divestment. HA staff have been gradually withdrawn from undertaking such duties.

7. A joint committee, comprising senior management of HA and The Link and chaired by the Director of Housing, has been set up to discuss important issues relating to operations and management of the 180 facilities. HA's Commercial Properties Sub-division maintains close contact with The Link over daily operational matters so as to ensure that any requests and demands of commercial tenants and residents will be properly dealt with and follow-up actions will be taken as appropriate. Final decisions on tenancy matters rest with HA for the time being (i.e. before and up to the relaunched IPO).

8. For those properties it manages, The Link has undertaken the following initiatives to improve the management of the RC facilities -

- (a) The Link has organised the 180 properties into eight districts to facilitate more effective asset management. A senior asset manager is accountable for each district.
- (b) The Link has introduced service pledges to ensure a speedy handling of leasing proposals. The Link has also adopted a more flexible leasing strategy, under which The Link may consider any trade proposal in the light of the circumstances of each and every retail facility.
- (c) The Link has introduced Customer Service Ambassadors in 10 shopping centres with a view to providing better service for customers.
- (d) The Link has started to progressively implement a range of minor improvement works in the retail facilities. These include improved exterior and interior signage, lighting, shop directories and other interior improvements.

Property valuation

9. The property valuation conducted for the purpose of the December 2004 IPO was based on data as at 30 September 2004, and its 3-month validity period has already expired. A new valuation is required for the re-launched IPO. The same methodology and the same independent property valuer have been used for the valuation. The outcome of the valuation will be disclosed in the Offering Circular for the relaunched IPO.

Public communication

10. Following HA's decision to divest the RC facilities in July 2003, it started a public communication programme to explain to stakeholders the objectives and strategy for the divestment project, and collect their views on the implementation of the project. The concerns and suggestions of stakeholders were, where appropriate, taken into account in mapping out details of the divestment.

11. After the lapse of the IPO in December 2004, representatives of HA and The Link gave briefings in respect of the divestment arrangements to the 18 District Councils, the Estate Management Advisory Committees in public rental housing (PRH) estates, and some 30+ Owners' Committees of Home Ownership Scheme (HOS) courts / Tenant Purchase Scheme (TPS) estates. This briefing process, involving over 150 meetings in total, commenced in December 2004 and was concluded on 6 June 2005.

12. A report on the above-mentioned public communication efforts was sent to Members in June 2005 and was and still is posted on HA's website. HA's announcement on the decision to re-launch (paragraph 3 above) was also sent to all domestic and commercial tenants of the PRH, HOS and TPS estates, so as to keep them informed. It must be recognised that it was and remains necessary to conduct public communication within the legal and regulatory restrictions applicable to IPOs.

Voluntary Exit Scheme (VES)

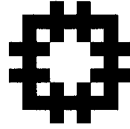
13. During the two-month application period ending September 2004, 156 civil servants in the Housing Department applied for the Voluntary Exit Scheme (VES). Seventy-two of these applications were approved (out of whom 13 have joined The Link) and 84 applications were subsequently withdrawn².

14. As at the end of September 2005, 26 civil servants (including the 13 under the VES mentioned in paragraph 13) and 44 contract employees of HA had joined The Link. They represent about 25% of the staff size of The Link.

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² Under the terms of the VES, applicants may apply for the VES and subsequently withdraw within a specified period if they are not recruited by the Link.

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Hong Kong Housing Authority

Re-launch of Global Offering

RE-LAUNCH OF GLOBAL OFFERING

The Supervisory Group on Divestment of the Hong Kong Housing Authority ("Housing Authority") today decided to re-launch the global offering of units in a Real Estate Investment Trust ("REIT") to implement the Housing Authority's decision (made on 24 July, 2003) to divest its retail and carpark facilities.

Preparatory work for a re-launched global offering has continued since the lapse of the Previous Offering. It is intended that, subject to satisfying all regulatory and approval requirements, an offering circular for the Re-launched Offering will be issued in November 2005 and that a listing of units on The Stock Exchange of Hong Kong Limited ("SEHK") will be completed before the end of 2005.

It is intended that The Link Management Limited ("Manager") will be re-appointed to act as the manager of the REIT.

PROPERTIES TO BE DIVESTED

The same Properties that formed the basis of the Previous Offering (namely 149 being integrated retail and carpark facilities, two being standalone retail facilities and 29 being standalone carpark facilities) will be divested under the Re-launched Offering. On completion of the Re-launched Offering the Housing Authority will cease to own the 180 Properties. The Properties are listed below.

After the meeting of the Supervisory Group on Divestment of the Housing Authority, the Housing Authority entered into agreements for the transfer of the Properties for the purposes of the Re-launched Offering, subject to the closing of the Re-launched Offering.

THE MANAGER

As part of the preparatory work for a re-launched offering, the Manager (currently a wholly-owned subsidiary of the Housing Authority) has undertaken the day-to-day management of the majority of the Properties.

For those Properties it manages, the Manager is currently:

- responsible for: (i) collection of rents, rates and other fees and charges; (ii) marketing, promotion and public relations services; (iii) maintenance of the Properties; (iv) monitoring of property management services contractors; and (v) capital improvement programmes;
- acting as leasing agent of the Housing Authority for all new and renewed lettings; and
- carrying out a range of minor asset enhancement works to certain Properties.

The strategic partner of the Manager is CapitalLand Limited.

FURTHER INFORMATION

The REIT will require authorisation from the Securities and Futures Commission ("SFC") under the Securities and Futures Ordinance. An application for authorisation was submitted to the SFC today. Following the prescribed procedures in the listing rules of the SEHK, an application for listing of the units in the REIT on the SEHK will be made subsequently.

The Joint Global Co-ordinators and Listing Agents for the Re-Launched Offering are Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited and UBS Investment Bank.

J.P. Morgan Securities (Asia Pacific) Limited is the Financial Adviser to the Housing Authority for the Re-Launched Offering.

Further announcements with respect to the progress and timing of the Re-launched Offering will be made in due course as appropriate.

DEFINITIONS

- "2004 Offering Circular" the offering circular published on 25 November, 2004 for the global offering of units in an investment trust known as The Link REIT which was made during November and December, 2004;
- "Re-launched Offering" a global offering of units in the REIT which offering is proposed to be made with closing, and listing of the units on the SEHK, to occur before the end of 2005;
- "Previous Offering" the global offering of units made pursuant to the 2004 Offering Circular; and

"Properties"

the retail and carpark facilities listed below (such list also being available on the Housing Authority's web-site (www.housingauthority.gov.hk) and available for inspection at the Housing Authority Headquarters at 33 Fat Kwong Street, Ho Man Tin, Kowloon during office hours).

Mr. Leung Chin-man
Director of Housing

Hong Kong, 6 September, 2005

The Previous Offering lapsed and unit certificates issued pursuant to the Previous Offering do not and will not constitute valid evidence of title. The 2004 Offering Circular has no legal effect as regards the Re-launched Offering.

LIST OF THE PROPERTIES

1. The integrated retail and carpark facilities located at the following estates and courts:

Ap Lei Chau Cheung On Choi Ha	Butterfly Cheung Wah Choi Ming	Cheung Fat Cheung Wang Choi Wan I	Cheung Hang Ching Wah Choi Yuen	Cheung Hong Choi Fai Chuk Yuen (South)
Chun Shek Fu Shin Hau Tak II Hing Tung	Chung On Fu Tai Heng On Hing Wah I	Fortune Fu Tung Hin Keng Hui Lai	Fu Cheong Fung Tak Hing Man Ho Man Tin (Ho Man Tin Plaza)	Fu Heng Fung Wah Hing Tin Hoi Fu
Hong Pak Kai Tin King Lam Kwai Shing East Lee On Lok Fu Lower Wong Tai Sin II (Wong Tai Sin Shopping Ctr)	Hong Shui Kai Yip Ko Chun Kwong Fuk Lei Cheng Uk Lok Nga Lung Hang	Hong Yat Kam Tai Ko Yee Kwong Tin Lei Tung Lok Wah (North) Ma Hang (Stanley Plaza)	Hung Horn Kam Ying Kwai Fong Kwong Yuen Lek Yuen Lok Wah (South) Mei Chung	Ka Fuk Kin Sang Kwai Hing Lai Kok Leung King Long Ping Mei Lam
Ming Tak On Yam Po Tin Shan King Sheung Tak Siu Lun Sun Tin Wai Tai Yuen	Nam Cheong Ping Tin Sam Shing Shek Lei I Shun Lee Siu On Tai Hing Tak Tin	Oi Man Po Lam Sau Mau Ping Shek Lei II Shun On Siu Sai Wan Tai Ping Tin Chak	Oi Tung Po Nga Sau Mau Ping III Shek Wai Kok Shun Tin Sui Wo Tai Wo Tin Chung (Chung Fu Shopping Ctr)	On Ting Po Tat Sha Kok Shek Yam Siu Hei Sun Chui Tai Wo Hau Tin Ma
Tin Ping Tin Wan Tsing Yi Tsz Lok (Tsz Wan Shan Shopping Ctr)	Tin Shing Tin Wang Tsui Lam Tsz Oi	Tin Shui II Tin Yat Tsui Ping (North) Tung Hei	Tin Tsz Tin Yiu I Tsui Wan Tung Tau II	Tin Wah Tong Ming Tsz Ching Un Chau
Upper Wong Tai Sin (Lung Cheung Mall)	Wah Kwai	Wah Ming	Wah Sum	Wan Tau Tong
Wan Tsui	Wang Tau Hom (Wang Fai Ctr)	Wo Che	Wo Ming	Yan Ming
Yan Shing Yiu On	Yat Tung Yiu Tung	Yau Oi Yu Chui	Yin Lai Yung Shing	Ying Fuk

2. The standalone retail facilities located at the following estates and courts:

Po Hei	Yau Mei and Ko Cheung (Lei Yue Mun Plaza (Yau Tong))
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3. The standalone carpark facilities located at the following estates and courts:

Ching Wang	Chuk Yuen (North)	Fung Lai	Hong Keung	Ka Tin
Kam On Lower Wong Tai Sin I	Kin Ming Ming Nga	King Lai Ning Fung	Kwai Hong Pang Ching	Lai On Po Pui
San Wai Tsui Ping South	Sau Mau Ping I Tsz Man	Tin King Upper Ngau Tau Kok Phase I	Tin Yau Wah Lai	Tin Yuet Wang Fuk
Yee Kok	Yee Nga	Ying Ming	Yue On	