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Panel on Housing
Meeting on 4 January 2007

Background brief
on divestment of Housing Authority's retail and car-parking facilities

Purpose

This paper provides background information on the divestment of retail and car-parking (RC) facilities of the Housing Authority (HA) and summarizes major discussion on related issues by Members at meetings of the Panel on Housing and on other occasions of the Legislative Council (LegCo).

Background for the divestment

2. Divestment of HA's RC facilities was first mooted in 2000, with the objective of enabling HA to focus its resources on its core function as the provider of public housing in Hong Kong. This objective was in line with the direction provided in the Report on the Review of the Institutional Framework for Public Housing published in June 2002, which recommended that HA should progressively divest its non-core assets, i.e. the commercial portfolio (RC facilities). The reasons for the divestment, according to the Administration, are two-fold. First, it would enable HA to focus its resources on its core functions as a provider of subsidized public housing. Second, with the cessation of production and sale of Home Ownership Scheme flats, HA lacks a recurrent source of income. Proceeds from the divestment will help to meet HA's funding requirements in the short term.

3. In July 2002, HA appointed a consultant to assess the feasibility of the divestment, recommend the divestment strategy and formulate an implementation proposal. Based on the findings of the consultancy study, the Administration put forward a divestment proposal to the Chief Executive in Council for consideration on 15 July 2003. The Chief Executive in Council decided that HA's agreement be sought to divest its RC facilities, and that the net proceeds from the divestment should entirely go to HA. On 24 July 2003, HA agreed in principle to divest its RC facilities and approved, inter alia, the establishment of the Supervisory Group on Divestment to monitor and steer the divestment project.

Details of the divestment

4. HA agreed to adopt the following broad strategy to take forward the divestment –

- (a) A Real Estate Investment Trust (REIT)¹ structure (The Link REIT) would be established to hold HA's RC facilities to be divested;
- (b) A new company to manage The Link REIT, The Link Management Limited (The Link), would be set up. This company would be beneficially owned by unit-holders of The Link REIT and held in trust by The Link REIT's trustees;
- (c) Initially, HA would assign the cash flow of the RC facilities to The Link and sign a sale and purchase agreement with it in respect of RC facilities. On this basis, The Link would make an initial public offering (IPO) on The Stock Exchange of Hong Kong;
- (d) At a later stage when preparation of relevant land leases were completed, HA would transfer the legal title of the RC facilities to The Link; and
- (e) The Link would pay to HA for the sale of the RC facilities by two installments: a major proportion of the sale amount would be paid immediately after the IPO and the balance would be paid upon the completion of transfer of legal titles.

5. HA also decided that other than a small proportion of the RC facilities which might be unsuitable for divestment because of their poor location, small scale, old age or obsolescent condition, all RC facilities would be divested in one go. The divestment project has included 180 RC facilities.

Listing of The Link REIT

6. The Link was incorporated in February 2004 as a HA wholly owned subsidiary, and it assumed in March 2005 the management functions for the 180 RC facilities to be divested.

7. On 8 December 2004, one day before the closing of the public offering period for The Link REIT, two public rental housing (PRH) tenants filed an application for judicial review of HA's statutory power to divest its asset. On 20 December 2004, HA announced its decision to postpone the listing of The Link REIT.

¹ According to the Code on Real Estate Investment Trusts (REIT Code) issued by the Securities and Futures Commission, a REIT is a collective investment scheme constituted as a trust that invests primarily in real estate with the aim to provide returns to holders derived from the rental income of the real estate. Funds obtained by a REIT from the sale of units in the REIT are used in accordance with the constitutive documents to maintain, manage and acquire real estate within its portfolio.

8. On 20 July 2005, the Court of Final Appeal ruled that HA had the power to divest its RC facilities. HA then announced on 6 September 2005 the decision to re-launch the global offering of units in The Link REIT. On 14 November 2005, an Offering Circular for the re-launched IPO was issued. The Link REIT was subsequently listed on 25 November 2005. The total proceeds received by HA from the divestment amounted to \$34.1 billion.

Major concerns expressed by Members on the divestment project

Discussions at Panel meetings

9. The Panel on Housing was first briefed on the divestment project on 3 November 2003, after HA had agreed in principle to divest its RC facilities. Members also received progress up-date on the divestment project and discussed its possible impacts at subsequent meetings held in 2003, 2004 and 2005. Some members expressed reservations about and stated opposition to the divestment project. Their major concerns are summarized in **Appendix I**.

Impact of the divestment on commercial tenants

10. Of particular concern to the Panel on Housing was the impact of the divestment on commercial tenants and service providers of RC facilities. In this regards, the Panel met with deputations coming from the retail, catering, and medical sectors for views on the subject at the meeting on 5 July 2004. A list of concerns and suggestions raised by the commercial tenants are set out in **Appendix II**. In this connection, members considered that The Link should maintain dialogue with the commercial tenants to see how their concerns could be addressed, and that the Administration should play an active role in the process.

11. When the subject was discussed at the meeting of the Panel on Housing on 20 October 2005, members expressed concern about the rent policy and the rent-setting mechanism of The Link. They considered it necessary for The Link to maintain dialogue with shop tenants to address their concerns about possible rental increases. The Chief Executive Officer of The Link (CEO/The Link) said that rental increase was not the key point of The Link's business strategies as evidenced from the Offering Circular. The Link's primary focus would be on controlling operating costs and improving operational efficiency of the divested RC facilities as set out in the Offering Circular. The Link intended to implement various initiatives aimed at improving the overall commercial attractiveness of, and shopper traffic and tenants' sales at, the divested RC properties, which would in turn enhance their rental potential. Like any landlord, The Link would consider a variety of factors, such as the trades operated by the tenants, the market situation and the rental value of similar premises in the vicinity, when setting rent. The market mechanism would effectively point to any adjustments required to keep the rents at a reasonable level. The Link viewed the shop tenants as an important partner of its business and was keen to maintain communication with them. The Link would pro-actively approach the shop tenants to discuss tenancy renewal before the expiry of their tenancy agreements.

Protection of interest of commercial tenants and tenants of public housing estates

12. At the meeting of the Panel on Housing on 20 October 2005, concern was raised about how the Administration or HA would protect the interests of the commercial tenants and PRH tenants after completion of the divestment project. In particular, some members expressed concern on whether there were measures to ensure RC facilities would continue to serve residents of the housing estates, prevent possible joint actions taken by significant holders of The Link REIT to replace the Board of Directors of The Link, sell The link REIT's assets, or demand for higher returns by imposing huge rent increase on the commercial tenants concerned. CEO/The Link assured that The Link would adhere to the guideline of maintaining a large and diversified portfolio of convenience-based RC facilities to continue serving the residents, the visitors and others. According to the Administration, HA had taken into account the multiple layers of protection available to a REIT in designing the structure of The Link REIT with a view to addressing concerns about one or a group of investors acquiring a controlling interest in The Link REIT. Under the REIT Code of the Securities and Futures Commission and/or the Trust Deed of The Link REIT, there are features that may limit the ability of a significant unit-holder from controlling The Link REIT to its advantage beyond what is realized by unit-holders generally. Such features are set out in **Appendix III**. The Administration further advised that, in the divestment of the 180 RC facilities, HA had adopted a fundamental principle that the facilities should continue to be used for retail or car-parking purposes after the divestment. This principle had been incorporated into relevant provisions in the property sale and purchase agreement and in the land leases for the facilities concerned. Any entity owning or controlling those facilities had to comply with those provisions. In other words, any change in the management or control of the facilities would not affect the facilities to be continuously used for retail or car-parking purposes, and would not affect the terms of use prescribed by the applicable land lease.

Concerns about the listing of The Link REIT

13. Abnormal price movements on The Link REIT arising from continuous acquisition of substantial units by hedge funds in November 2005 and potential conflict of interest between Mr Paul CHENG's advisor role with Deutsche Bank and his role as the Chairman of the Board of Directors of The Link (the Board) aroused considerable public concern. The Panel on Financial Affairs discussed the conflict of interest issue and other financial issues involved in and after the listing of The Link REIT at its meetings on 14 December 2005 and 3 April 2006. The relevant papers and minutes of meetings are hyperlinked in **Appendix VII**.

Discussions at Council meetings

14. Given that the Administration and HA had disregarded the motion passed by the Panel on Housing at the meeting on 22 November 2004, inter alia, to put the listing of The Link REIT on hold, a motion for adjournment for the purpose of discussing the divestment was moved at the Council meeting on 1 December 2004. In view of the far-reaching implications of the Government's privatization plan, including The Link REIT, a motion demanding the suspension of privatization plans was moved at the Council meeting on 1 June 2005. The two motions were negatived. The wording of the motions is set out in **Appendix IV**.

15. In view of public concern on the divestment of HA's RC facilities, the impacts of the projects on stakeholders, the listing arrangements for The Link REIT, LegCo Members have been monitoring development of the subject through raising questions at the Council meetings during 2004 to 2006. The details are hyperlinked in **Appendix VII**.

Concerns about the work of The Link after the listing of The Link REIT

16. After the listing of The Link REIT, complaints concerning rent increases on commercial premises in The Link's shopping centres and markets, as well as management problems of operators engaged by The Link continue to emerge and arouse wide public concern. While acknowledging The Link has become a private entity, given that the provision and management of divested RC facilities have great impact on the daily life of PRH tenants, members of the Panel on Housing consider The Link has a corporate social responsibility to ensure proper provision and management of such facilities in meeting tenants' need. The Administration or HA also has the responsibility to ensure the continued provision of suitable and adequate RC facilities to PRH tenants as stipulated in the Housing Ordinance (Cap. 283) (HO) in order to protect their interest after the divestment of RC facilities.

17. To address the above concerns, the Panel on Housing invited representatives of The Link and the Administration to the meeting held on 9 May 2006 to discuss the provision and management of RC facilities in PRH after the divestment of the facilities by HA. At the meeting, members expressed deep disappointment that no representative from The Link attended the meeting and passed a motion to invite representatives from The Link again, in particular, Mr Paul CHENG, Chairman of the Board, and Mr Victor SO, CEO/The Link to attend a Panel meeting. Where the above officers of The Link refuse to attend the meeting again, the Panel would consider exercising the power conferred under the Legislative Council (Powers and Privileges) Ordinance (Cap. 382) to order the attendance of the persons. Meanwhile, arising from reported complaints about service contractors of The Link changing the work shift pattern of their security personnel and introducing a pay cut for their cleansing workers from June 2006, members of the Panel on Manpower expressed concern about the protection of interests of non-skilled workers engaged in services contracted out by The Link.

18. A joint meeting of the Panel on Housing and the Panel on Manpower was held in June 2006 with representatives from The Link and the Administration to discuss matters relating to the provision and management of divested RC facilities and protection of interests of non-skill workers engaged in services contract out by The Link. At the joint meeting, members expressed deep disappointment about rent increases by The Link on its commercial premises, which might force small businesses to close and have negative impact on consumers who were mainly PRH tenants. Despite The Link's claim that there had been increase in patronage and shoppers' traffic in the majority of its shopping centres, members were not convinced and urged The Link to honour its previous undertaking of enhancing the overall commercial attractiveness of retail properties before considering rent increases on the commercial properties. Consideration should be given to providing parking promotions at shopping centres with low patronage to attract more shoppers and promote business therein. Members also called on The Link to continue with the concessionary rent arrangement for welfare facilities, such as clinics, to meet the needs of PRH tenants; and temporary use of venues by non-profit making bodies for holding community activities. Regarding the protection of interests of non-skilled workers engaged by The Link's service contractors, members expressed grave concern about The Link's plan to reduce some 1 400 jobs. While acknowledging the need for The Link to enhance its management quality and customer services through making manpower arrangements according to individual facilities' shopper traffic patterns and needs, members urged The Link to give priority to existing staff in the recruitment of customer service personnel. The Link was called upon to ensure reasonable working conditions and level of wages for non-skilled workers, strengthen monitoring of its contractors to stop labour exploitation, set standards on wage levels and working hours for contractors to follow, and adopt the Government's practice of only engaging service contractors who offered wage rate for non-skilled workers not lower than the average monthly wages for the relevant industry/occupation as published by the Census and Statistics Department's Quarterly Report of Wages and Payroll Statistics. Service contractors who had committed employment-related offences should not be considered in The Link's tendering exercises. Members also considered that in pursuing its commercial objectives, The Link should maintain dialogue with LegCo and the community. Continuous dialogue and enhanced communication between The Link and stakeholders would be conducive to resolving problems and avoiding misunderstanding. Responding to the various concerns raised by members and the public, CEO/The Link stressed the company's commitment to providing better service to customers and PRH tenants, and protecting the interests of non-skilled workers. A wide range of improvement measures had been and would continue to be implemented progressively to deliver attractive shopping and leisure destination for shoppers, which better suits their needs, tastes and affordability. The Link had been maintaining regular dialogues with various stakeholders including customers and commercial tenants. It would follow up on the various complaints and closely monitor its contractors.

Latest developments

19. On 29 June 2006, The Link announced the first financial performance of The Link REIT covering the period from 25 November 2005 to 31 March 2006. The Link REIT has made good performance and delivered to the unitholders a 10% higher Distribution per Unit return than the forecast given in the Offering Circular. On 21 November 2006, The Link announced the interim results of The Link REIT for the half-year period ended 30 September 2006. The Link REIT has made good performance and delivered a Distribution per Unit 6.3% higher than its commitment on annualized basis. During the half-year period, the average rent reversion rate for the property portfolio and the retail shopping space were 8.3% and 9.3% respectively.

20. Recently, there have been media reports about The Link's plan of grouping existing clinics and medical laboratories scattered in public estates to form medical centres in its shopping malls. On 4 December 2006, the Hong Kong Medical Association issued a press release about complaints lodged by doctors practicing in the housing estates managed by the Link. There was allegation against The Link refusing to renew tenancies for doctors in housing estate commercial centres and attempting to relocate them to unfavourable sites without prior consultations. The press release is in **Appendix V**.

21. A written question on medical centres in the shopping centres managed by the Link was raised at the Council meeting on 20 December 2006. The question and the Administration's reply are in **Appendix VI**.

References

22. The relevant papers relating to the subject with their hyperlinks are in **Appendix VII**.

Members' major concerns expressed at meetings of the Panel on Housing

Impact on HA's financial situation

Noting that rental income from the RC facilities was a major source of recurrent income for HA, Panel members were concerned that HA would incur deficit in the long run after divestment of these facilities.

Impact on staff of the Housing Department

2. As the divestment would affect some 650 civil servants, ranging from professionals to front-line officers, currently managing or maintaining the RC facilities, concern was raised on the job security of staff, in particular contract staff in the Housing Department (HD). According to the Administration, a voluntary exit scheme (VES) would be introduced for those who wished to leave the civil service. VES would cover only the 646 departmental grade posts being identified to be surplus to requirement arising from the divestment. Any civil servants working in HD who were in the same ranks as these 646 posts would be eligible to apply, provided that they had more than five years' active service prior to normal retirement and were not subject to disciplinary proceedings. The benefits under the VES would include, inter alia, immediate payment of pension benefits irrespective of whether or not the officer concerned had attained the normal retirement age, but subject to completion of the stipulated minimum qualifying length of service. It was expected that some of the existing staff might be required to support the new company during the initial stage through secondment or service contracts. Staff might also be recruited by the new company given their operational knowledge and experience. Members however remained concerned that the introduction of VES and redeployment of surplus staff might not resolve the problem. They urged the Administration to sort out measures to mitigate impact on the contract staff.

3. At the special meeting of the Panel held on 22 November 2004, members received an update on the latest progress of the divestment. According to the Administration, HD would redeploy surplus staff to other duties such as estate management, and there would not be any forced redundancy of civil servants arising from the divestment. On the progress of VES, the Administration advised that during the two-month application period ending 18 September 2004, 156 civil servants in HD had applied for VES. The Administration later advised that 72 applications were approved and 84 applications were subsequently withdrawn. Among the 72 approved applications, 13 joined The Link. An additional 48 HD staff not eligible for VES had also joined The Link.

4. As regards members' concern about the impact of the divestment on contract staff, the Administration's explanation was that all possible measures had been considered to mitigate the impact. These included introducing more flexible contract terms to enable job sharing and redeploying surplus contract staff to other jobs in HA

as far as possible. A scheme had also been worked out to assist outgoing contract staff to better equip themselves for the job market through training, and to recommend them to prospective employers where appropriate. There had been some successful cases. At the Panel meeting on 20 October 2005, the Administration advised that 44 contract staff had joined The Link.

Impact on commercial tenants

5. Of equal concern to the Panel was the impact of the divestment on stakeholders, such as commercial tenants and service providers. At the Panel meeting on 5 July 2004, 10 deputations coming from the retail, catering, and medical sectors were invited to express views on the subject. Their main concerns included rent increase, security of tenure, continuity of letting/contracting policies, payment of stamp duty, changes in trade mix as well as policies on name change and fire insurance, etc. A list of their concerns and suggestions are set out in **Appendix II**. In this connection, members considered that the new company should maintain dialogue with the commercial tenants to see how their concerns could be addressed, and that the Administration should play an active role in the process.

6. When the subject was again discussed at the Panel meeting on 22 November 2004, members noted the following major requests raised by the Concern Group on Divestment of Housing Authority's Retail and Car-parking Facilities –

- (a) The Link should ensure existing tenants would have priority in renewing their tenancy agreements and be able to opt for contracts of three, six or nine years;
- (b) A transparent and reasonable rent adjustment mechanism linked to the consumer price index be established; and
- (c) An exit clause be included in the tenancy agreements to enable existing commercial tenants to terminate the agreements should they find difficulty in adopting to the new tenancy arrangements introduced after the listing of The Link REIT.

Members called upon HA and The Link to seriously consider the above requests given that many existing lease conditions were not included in the tenancy agreements but governed by HA's tenancy policy, which might not be adopted by The Link having regard to its commercial nature. Some members held the view that HA should secure an undertaking from The Link to accede to the requests, bearing in mind that some of these commercial tenants were resettled to HA's commercial premises as part of the resettlement programme to re-provision shops in cottage areas displaced by previous clearance operations. Consideration should also be given to exempting existing commercial tenants from new arrangements, if any, to be introduced by The Link. According to the Administration, it would not be appropriate to impose any condition on how The Link should manage the RC facilities. Nevertheless, it undertook to convey members' requests and views to The Link for consideration. Not being

convinced by the Administration's response, the Panel passed the following motion –

“That this Panel urges the Housing Authority (HA) and The Link Management Limited (The Link) to jointly discuss with the commercial tenants as soon as possible the specific transitional arrangements, including the tenancy policy, in concrete terms before the listing of the Real Estate Investment Trust, so as to ensure that the commercial tenants will not suffer a sharp increase in rent, or even be forced out of business as a result, thereby saving the residents from having to bear the adverse impact of rising prices; and that the HA should put the listing arrangements on hold until a consensus has been reached between The Link and the commercial tenants.”

Operation and structure of the new company

7. Members had expressed the following concerns about the operation and structure of the new company –

- (a) There was a possibility of monopoly or oligarchy of the RC facilities by a limited number of big corporations which had sufficient financial strength to buy up all the shares of the new company;
- (b) If HA did not retain any share in the new company, it would not have any role to play in its management to ensure continuity of tenancy policy;
- (c) The new company should have a proper corporate structure to ensure that it would not be controlled by a few persons and the terms of its board of directors would not be extended indefinitely; and
- (d) After divestment, the RC facilities would be operated fully on a commercial basis. The new company would be more ready to increase rents and the burden of which would eventually be passed onto consumers in terms of higher prices for goods and services.

Transparency of the divestment exercise

8. Members stressed the need to enhance the transparency of the divestment exercise, which in their view was important to facilitate proper monitoring of the process and to assure the commercial tenants that their interest would not be compromised by the divestment. They however noted with disappointment that the Administration was not able to disclose the listing details prior to publication of the relevant prospectus under the listing regulations.

Valuation of the retail and car-parking facilities

9. There were concerns that the RC facilities were sold at a low price at the expense of taxpayers' money. A member was sceptical that HA had deliberately under-estimated the full market value of the RC facilities in order to get a higher yield

for investors. Another member cast doubt on the credibility of the valuation, which according to him, was conducted behind closed doors. Besides, one of the personnel involved, namely the Chief Executive Officer of The Link Management, had a notorious track record and questionable integrity. He considered that the Panel should not accept the HA's divestment plan until specific details on the valuation and relevant arrangements were available. The Administration's explanation was that according to legal advice, disclosure of the valuation details would be problematic in the light of local and overseas listing regulations.

(Source: Extracts from the background brief prepared by the Legislative Council Secretariat LC Paper No. CB(1)62/05-06(01))

**Major concerns and suggestions raised by commercial tenants
on divestment of retail and car-parking facilities
of the Housing Authority**

1. Rental policy

- 1.1 Rental increase by MgtCo for pursuit of higher profits?
- 1.2 Possibility of rent review on a three-year cycle, in accordance with Consumer Price Index (CPI) movements?

2. Various tenancy terms

- 2.1 Continue with the existing arrangement, including those for -
 - (a) air-conditioning charges;
 - (b) management fees (of which the rent is inclusive);
 - (c) rent deposit (ie generally two-months' rent, in cash and / or bank guarantee);
 - (d) exemption from stamp duty payment;
 - (e) area of letting being expressed in Internal Floor Area, instead of Gross Floor Area;
 - (f) negotiation mechanism on rental levels; and
 - (g) termination of tenancy
- 2.2 As a comfort to sitting commercial tenants -
 - (a) Will they be eligible (or enjoy priority) for tenancy renewal? [Note : Some groups have asked for tenancy renewal up to 9 years.]
 - (b) Alternatively, will the tenancy period for these tenants be extended (say, to 5 years)?
 - (c) Will MgtCo be prohibited from exercising "early termination" provision against these tenants?
- 2.3 Any one-off and unconditional waiver for the so-called "conspired sub-letting"?

- 2.4 Any ex-gratia payment (and, for those let on premium tender, return of premium) to those opting to move out, or those with tenancies not renewed by MgtCo?
- 2.5 Insurance against damage to the premises (by fire and other perils such as typhoon and flood) continues to be provided at the cost of the landlord?
- 2.6 Arrangement for commercial tenants benefited from the 2001 Rent Assessment Exercise, bearing in mind that the lower rent assessed under the exercise will expire by end of October 2004?
- 2.7 Arrangement for rent relief measures such as "rent adjustment" for new estates with slow population intake?

3. Trade mix

- 3.1 Continue with the existing trade mix to avoid unhealthy competition?
- 3.2 Prospect for MgtCo to minimize vacancy rate by compromising the original trade mix?

4. Interests of small tenants / social responsibility of MgtCo

- 4.1 How to protect the interest of small tenants?
- 4.2 How to avoid monopoly / oligarchy of RC facilities by individual operators (especially those of big names)?
- 4.3 More fundamentally, how to avoid MgtCo being "taken over" by large corporations?
- 4.4 Given MgtCo's priority to financial returns, how to ensure its social responsibility (e.g. provision of healthcare services) and commitments to the tenants?
- 4.5 Will MgtCo sell off RC properties under its portfolio, as they have an incentive to do so in respect of those with low return rate?
- 4.6 Will HA retain a certain degree of control over the operation of MgtCo after divestment?

5. Maintenance / repair cost

- 5.1 Will the MgtCo take up the cost of maintenance / repair services?
- 5.2 Will the MgtCo cut the budget for maintenance / repair services for these properties given their low return rate?

6. Communication channels with tenants

- 6.1 Any channel for commercial tenants to monitor the transitional arrangement?
- 6.2 Any consultation / communication mechanism between the MgtCo management and the commercial tenants?
- 6.3 Any appeal mechanism on MgtCo's decision in future? Any mechanism to monitor its policy (e.g. rental policy) and operation?
- 6.4 Will commercial tenants be represented on MgtCo's board of directors?

7. Operational management

- 7.1 Small tenants against a wider use of the single-operator system, but this is advocated by the existing "single operators".
- 7.2 Continue with the existing policy of out-sourcing carpark management to outside companies?
- 7.3 Ability for MgtCo to take up at once the management of a massive portfolio of RC facilities?
- 7.4 Will estate common areas and prohibited zones be clearly carved out to minimize potential management problems after divestment?
- 7.5 Important to ensure a smooth transfer of existing contracts or financial instruments (e.g. letter of guarantee) to MgtCo.

8. Others

- 8.1 Given all the adverse implications of the divestment project on the commercial tenants, will HA defer / call off the project?
- 8.2 Provision of clinic services according to population ratio?
- 8.3 Possible to exclude clinics from divestment, having regard to their social service nature?
- 8.4 Possible for commercial tenants to subscribe for The Link REIT units on a pre-emptive basis?
- 8.5 Possible for sitting tenants to buy their own shops?
- 8.6 Compensation arrangement for redevelopment?

(Source: Annex B to LC Paper No. CB(1) 2291/03-04(08) provided by the Administration)

Features under the REIT Code of the SFC and/or the Trust Deed of The Link REIT

- (a) The Link REIT's key business must be to invest in real estate which will generally produce sustainable income. It cannot engage in property development or speculative investments. If The Link REIT wishes to sell a property within two years of its acquisition, the sale must be approved at a general meeting of unit-holders by a special resolution¹.
- (b) No unit-holder has a right to require that any assets of The Link REIT be transferred to him. A significant holder² and its related parties are prohibited from voting their units or being part of a quorum for any meeting of unit-holders convened to approve any matter in which the significant holder has a material interest in the business to be conducted.
- (c) If The Link REIT is terminated, its real estate assets must be disposed of under the oversight of the Trustee by either public auction or open tender. Proceeds from the disposal will then be distributed to all unit-holders according to provisions of the Trustee Deed.
- (d) There is no provision which compels minority unit-holders to sell their units to any significant unit-holder.
- (e) Under the REIT Code, the Manager is required to distribute to unit-holders as dividends each year at least 90% of the audited annual net income after tax of The Link REIT.
- (f) The gearing ratio of The Link REIT cannot exceed 45% of its gross asset value.

¹ The passing of a special resolution requires a quorum of two or more unit-holders holding at least 25% of all units in issue.

² Under the Trust Deed, a significant holder means a person who owns 10% or more of the units in issue.

Wording of motions negated at Council meetings

Wording of motion negated at Council meeting on 1 December 2004

“That this Council do now adjourn for the purpose of enabling Members, having regard to the Administration’s and the Housing Authority’s disregard for the motion passed by the Panel on Housing of this Council at its special meeting on 22 November this year that the Housing Authority should put the listing arrangements for The Real Estate Investment Trust (“The Link REIT”) on hold until a consensus has been reached between The Link Management and the commercial tenants, to debate and express opinions on the listing and public offering arrangements, evaluation of assets and all matters relating to the divestment of retail and car-parking facilities in public rental housing estates in respect of The Link REIT.”

Wording of motion negated at Council meeting on 1 June 2005

“That, as the Government’s recent public asset privatization plans, such as the listing of The Link Real Estate Investment Trust, the privatization of the Airport Authority Hong Kong, and the proposed merger of the two railway corporations, have aroused public concerns, and such plans involve issues of whether the implementation of privatization is beneficial to the community as a whole and whether it will affect people’s livelihood and widen the disparity between the rich and the poor, etc, this Council demands that the Government should act prudently and suspend the privatization plans concerned and that, before the implementation of any public asset privatization plans, ad hoc committees comprising representatives from various sectors of the community should be set up to comprehensively and thoroughly assess and study their cost-effectiveness, return, legality and impact on the general public, etc and, based on the findings of such assessments and studies, conduct full and extensive consultations; furthermore, the Government should ensure that any privatization plan which involves the public interest is for the benefit of the general public and must be subject to public scrutiny.”

The Hong Kong Medical Association

Press Release

4 December 2006

A "LINK" without Community Commitment

Doctors practicing in Housing Estates have lodged complaints that the new management, Link, has in the last few months, refused to renew the contracts of doctors in Housing Estate commercial centers and attempted to relocate them to unfavorable sites without prior consultations. In its response to the reporters from Sing Tao Daily, Ming Pao and Commercial Radio Hong Kong, Link had persistently used the term 'public health' concern as one of the reason for the relocation. The Hong Kong Medical Association wishes to challenge this ungrounded allegation which may tarnish the image of estate clinical practice. The Hong Kong Medical Association would like the Housing Authority and the Department of Health to let the public know if there had been any public health issues of estate clinics in commercial complex in the last 40 years and if there were any such issues whether they were made known to the public or the government. The Hong Kong Medical Association would like Link to show concrete examples of health problems from estate clinics to pose environmental concern. If there is no such example, the Hong Kong Medical Association expects Link to apologize to the medical profession for its allegation.

Estate doctors have braved the SARS storm without backing down and providing health support to citizens, spared them from visiting public hospitals. This spelled out the function of primary care doctors to the community. Medical practice in the 21st century has moved from the hospital into the community. Psychiatric beds are reduced and psychiatric patients integrated back into the community for management. The health care policy as depicted by the Bureau of Health and Welfare in "*Building a Healthy Tomorrow*", the discussion paper of the Health and Medical Development Advisory Committee, pin-pointed family doctors as gate-keepers for our health care system. It would be ludicrous to dream about stationing the gate-keepers keeping gates in the car park of the Housing Estate, segregated from the community, and putting the doctors and their patients at risk of lung cancer from inhaling vehicle exhaust fumes.

In the annual report of the Housing Authority in 1965, the plan of a civic center, of a town hall, of a community with its own clinic, kindergarten, school, post-office etc. was already on the map. In Lower Wong Tai Sin Estate 11 years ago, the doctors and

dentist and a laboratory were pooled together and relocated from one end of the floor to a cul-de-sac which the Housing Authority labeled 'Medical Center'. The Housing Authority promised that there will be no need to re-locate again. Now, 11 years later, under the pretext of centralizing into a medical center, Link unilaterally announced the plan of removing all doctors from Lower Wong Tai Sin Estate to join their counterparts in Upper Wong Tai Sin Estate in the car park, thus depriving the Lower Wong Tai Sin Community of medical doctors and in breach of the Housing Authority's initial agreement and its ideal of a community.

There are currently over ten non-government organizations helping spastics, elderly, cancer patients, physically handicapped, stoma patients, drug-rehabilitating patients, diabetic patients, and children from problem families in Lower Wong Tai Sin Estate. Has Link considered the implication to the underprivileged by relocating the clinics to Upper Wong Tai Sin Estate? Thousands of patients have signed up in protest of the plan to relocate the clinics. Will Link respect the wish of the community?

4 days before their contracts expired, Link provided a temporary contract of 10 months for the doctors in Wong Tai Sin Lower Estate. This cannot enable the doctors to plan ahead for their patients. The purchase of furniture and equipment and employment of staff has to be planned in line with a solid contract which has all along been provided by the Housing Authority. We implore the government to look into the matter, since it allowed Link to take over the commercial centers from the Housing Authority, and since Link promised in the Legislative Council that there will not be any major changes in the 5 years after taking over.

Notes to editors:

The Hong Kong Medical Association, founded in 1920, aims to bring together Hong Kong's government, institutional, university and private medical practitioners for an effective exchange of views and co-ordination of efforts. The foremost objective of the Association is to safeguard and promote public health. The Association speaks collectively for its members and aims to keep its members abreast of medical ethics, issues and advances around the world. In fulfilling these goals, the association hopes to better serve the people of Hong Kong.

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Press Release

LCQ15: Medical centres in the shopping centres managed by the Link

Following is a question by the Hon Li Kwok-ying and a written reply by the Secretary for Housing, Planning and Lands, Mr Michael Suen, in the Legislative Council today (December 20):

Question:

It has been reported that The Link Management Limited ("The Link") is planning to set up a medical centre in one of its shopping malls, which will group general, dental and specialist clinics as well as medical laboratories together to provide one-stop medical services. The Link also requires some of the clinics in that shopping mall to move to the car park or secluded corners. In this connection, will the Government inform this Council:

(a) whether it knows the details of the above plan, and whether The Link will extend this plan to all its shopping malls; if so, of the timetable for implementing this plan in individual shopping mall;

(b) whether it knows the criteria for selecting the site for the above medical centre, and how the needs of people seeking medical treatment have been taken into consideration; and

(c) given that the number of people seeking treatment from Chinese medicine practitioners is increasing, whether it knows if The Link will consider including Chinese medicine clinics in the above medical centre; if so, of the details?

Reply:

Madam President,

Upon its public listing on November 25, 2005, the Link Real Estate Investment Trust (The Link) has become a private entity, whose business strategies and day-to-day operations are entirely independent of the Housing Authority (HA). So long as The Link's operations comply with prevailing legislation, conditions of

government leases, and terms of covenants and agreements made between The Link and the HA, the Government and the HA cannot intervene in The Link's day-to-day management, business strategies and mode of operation.

There is no need for the Government or the HA to be apprised of the business development plan of The Link, or the day-to-day business management and contractual agreements between The Link and its tenants. We do not have detailed information about The Link's plan to set up medical centres in its shopping malls, including implementation timetable, site selection criteria or whether Chinese medicine clinics would be included in those medical centres.

Ends/Wednesday, December 20, 2006

Issued at HKT 11:59

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Divestment of the Housing Authority's Retail and Car-parking Facilities

List of relevant papers

Council/Committee	Date of meeting	Paper
Housing Panel	14 January 2003	Minutes http://www.legco.gov.hk/yr02-03/english/panels/hg/minutes/hg030114.pdf
Council Meeting	2 April 2003	LegCo question http://www.legco.gov.hk/yr02-03/english/counmtg/hansard/cm0402ti-translate-e.pdf
Housing Panel	3 November 2003	File Ref: HD(CR)/(CS) Div/DV/3 http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1103cb1-hplb-e.pdf LC Paper No. CB(1)190/03-04(04) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1103cb1-190-4e.pdf LC Paper No. CB(1)190/03-04(05) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1103cb1-190-5e.pdf LC Paper No. CB(1)438/03-04(03) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1201cb1-438-3e.pdf Minutes http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hg031103.pdf

Council/Committee	Date of meeting	Paper
Housing Panel	1 December 2003	LC Paper No. CB(1)438/03-04(03) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg1201cb1-438-3e.pdf Minutes http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hg031201.pdf
Housing Panel	3 May 2004	LC Paper No. CB(1)1638/03-04(03) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg0503cb1-1638-3e.pdf Minutes http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hg040503.pdf
Establishment Committee	16 June 2004	EC(2004-05)9 http://www.legco.gov.hk/yr03-04/english/fc/esc/papers/e04-09e.pdf
Housing Panel	5 July 2004	LC Paper No. CB(1)2291/03-04(07) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg0705cb1-2291-7e.pdf LC Paper No. CB(1)2291/03-04(08) http://www.legco.gov.hk/yr03-04/english/panels/hg/papers/hg0705cb1-2291-8e.pdf Minutes http://www.legco.gov.hk/yr03-04/english/panels/hg/minutes/hg040705.pdf
Council meeting	20 October 2004	LegCo question http://www.legco.gov.hk/general/english/counmtg/yr04-08/mtg_0405.htm#mtg1020

Council/Committee	Date of meeting	Paper
Housing Panel	22 November 2004	LC Paper No. CB(1) 276/04-05(01) http://www.legco.gov.hk/yr04-05/english/panels/hg/papers/hg1122cb1-276-1e.pdf LC Paper No. CB(1) 276/04-05(02) http://www.legco.gov.hk/yr04-05/english/panels/hg/papers/hg1122cb1-276-2e.pdf LC Paper No. CB(1) 1025/04-05(01) http://www.legco.gov.hk/yr04-05/english/panels/hg/papers/hg1122cb1-1025-1e.pdf Minutes http://www.legco.gov.hk/yr04-05/english/panels/hg/minutes/hg041122.pdf
Council meeting	1 December 2004	Motion debate http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm1201ti-translate-e.pdf
Housing Panel	3 January 2005	Minutes http://www.legco.gov.hk/yr04-05/english/panels/hg/minutes/hg050103.pdf
Council meeting	5 January 2005	LegCo question http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm0105ti-translate-e.pdf
Financial Affairs Panel	19 January 2005	Minutes http://www.legco.gov.hk/yr04-05/english/panels/fa/minutes/fa050119.pdf

Council/Committee	Date of meeting	Paper
Housing Panel	21 January 2005	Minutes http://www.legco.gov.hk/yr04-05/english/panels/hg/minutes/hg050121.pdf
Council meeting	26 January 2005	LegCo question http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm0126ti-translate-e.pdf
Council meeting	2 March 2005	LegCo question http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm0302ti-translate-e.pdf
Council meeting	25 May 2005	LegCo question http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm0525ti-translate-e.pdf
Council meeting	1 June 2005	Motion debate http://www.legco.gov.hk/yr04-05/english/counmtg/hansard/cm0601ti-translate-e.pdf
Housing Panel	21 June 2005	LC Paper No. CB(1) 1787/04-05(05) http://www.legco.gov.hk/yr04-05/english/panels/hg/papers/hg0621cb1-1787-5-e.pdf
Housing Panel		LC Paper No. CB(1) 2256/04-05(01) http://www.legco.gov.hk/yr04-05/english/panels/hg/papers/hgcb1-2256-1-e.pdf
Housing Panel	20 October 2005	LC Paper No. CB(1) 62/05-06(03) http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hg1020cb1-62-3-e.pdf LC Paper No. CB(1) 62/05-06(01) http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hg1020cb1-62-1-e.pdf

Council/Committee	Date of meeting	Paper
		Minutes http://www.legco.gov.hk/yr05-06/english/panels/hg/minutes/hg051020.pdf
Council meeting	9 November 2005	LegCo question http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm1109ti-translate-e.pdf
Council meeting	16 November 2005	LegCo question http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm1116ti-translate-e.pdf
Financial Affairs Panel	14 December 2005	LC Paper No. CB(1) 514/05-06(01) http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/fa1214cb1-514-1e.pdf LC Paper No. CB(1) 514/05-06(02) http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/fa1214cb1-514-2e.pdf LC Paper No. CB(1) 514/05-06(03) http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/fa1214cb1-514-3e.pdf LC Paper No. CB(1) 532/05-06(01) (English version only) http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/fa1214cb1-532-1e.pdf Minutes http://www.legco.gov.hk/yr05-06/english/panels/fa/minutes/fa051214.pdf
Housing Panel		LC Paper No. CB(1) 815/05-06(01) http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hgcb1-815-1-e.pdf

Council/Committee	Date of meeting	Paper
Council meeting	8 March 2006	LegCo question http://www.legco.gov.hk/yr05-06/chinese/counmtg/floor/cm0308ti-confirm-c.pdf
Financial Affairs Panel	3 April 2006	LC Paper No. CB(1) 1152/05-06(01) http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/fa0403cb1-1152-1e.pdf LC Paper No. CB(1) 1152/05-06(02) http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/fa0403cb1-1152-2e.pdf LC Paper No. CB(1) 1179/05-06(03) http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/fa0403cb1-1179-3e.pdf LC Paper No. CB(1) 1179/05-06(04) http://www.legco.gov.hk/yr05-06/english/panels/fa/papers/fa0403cb1-1179-4e.pdf Minutes http://www.legco.gov.hk/yr05-06/english/panels/fa/minutes/fa060403.pdf
Council meeting	26 April 2006	LegCo question http://www.legco.gov.hk/yr05-06/chinese/counmtg/floor/cm0426ti-confirm-c.pdf
Housing Panel	9 May 2006	LC Paper No. CB(1)1396/05-06(05) http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hg0509cb1-1396-5-e.pdf LC Paper No. CB(1)1387/05-06(01) http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hg0509cb1-1387-1-e.pdf

Council/Committee	Date of meeting	Paper
		<p>LC Paper No. CB(1)1396/05-06(06) http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hg0509cb1-1396-6-e.pdf</p> <p>Background brief http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hg0509cb1-1396-7-e.pdf</p> <p>Minutes http://www.legco.gov.hk/yr05-06/english/panels/hg/minutes/hg060509.pdf</p>
Housing Panel and Manpower Panel (joint meeting)	5 June 2006	<p>LC Paper No. CB(1)1632/05-06(01) http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hgmp0605cb1-1632-1-e.pdf</p> <p>LC Paper No. CB(1)1643/05-06(01) (English version only) http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hgmp0605cb1-1643-1-e.pdf</p> <p>LC Paper No. CB(1)1623/05-06(01) http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hgmp0605cb1-1623-1e.pdf</p> <p>Background brief http://www.legco.gov.hk/yr05-06/english/panels/hg/papers/hgmp0605cb1-1643-4-e.pdf</p> <p>Minutes http://www.legco.gov.hk/yr05-06/english/panels/hg/minutes/hgmp0605.pdf</p>