

CEO's Report

“ In its first four months of operation, The Link's management and staff laid down considerable groundwork to enhance our properties, service quality and business performance. ”



Asset Enhancement

As we emphasised during our initial public offering, asset enhancement is key to improving returns to unitholders and service to customers and tenants. I am pleased to report that, in our first four months, three of the eight identified major asset enhancement projects have already produced encouraging results.

We have completed the remodelling of the upper zone of Tsz Wan Shan Shopping Centre. This space, which once yielded low rentals, is now occupied by popular shops offering greater variety for shoppers, including fashion and footwear, skincare and cosmetics, books and stationery, household goods, health food and specialty restaurants. Many of these brand names are making their debut appearance with The Link's shopping centres at Tsz Wan Shan.

In Lung Cheung Mall, unused workshop space has been converted into shops, many of which have already been pre-let. A newly arranged tourist bus drop-off next to these new shops has made the mall a key passage for tourists going to Wong Tai Sin Temple, boosting footfall within the mall.

We have also completed Phase One of our Hau Tak Shopping Centre enhancement project. Shop space at this mall, which is in the town centre of Tseung Kwan O, is now very much in demand after previously being very difficult to lease out. This change is the result of an innovative new layout of leased and common areas, together with more appealing design. Subsequent phases are under way.

Planning for the other five shopping centres — Lok Fu, Tai Wo, Chung On, Choi Ming and Stanley Plaza — is also at an advanced stage. As at the first three centres, plans for these malls draw on our colleagues' wide-ranging expertise and take into account the interests and concerns of all stakeholders. As these centres are almost fully occupied, work will start in phases to minimise inconvenience to tenants.

It is gratifying to note that, with the presence of more new retail tenants, many existing tenants have taken it upon themselves to upgrade their own shop designs and mode of operation to enhance attractiveness.



A new face and a new style

1. New eateries, such as Red Stone Cafe at Tsz Wan Shan Shopping Centre, give diners new contemporary choices, in keeping with the times.
2. Our customer service ambassadors are a welcome addition and are always ready to lend a hand to young and old alike.
3. More attractive facilities and shops decor attract the young and trendy.
4. Long-time tenants, such as the Majestic shop, have upgraded shop fronts and merchandise display to make their shops bright and inviting.
5. The wall mural at the lobby that intercepts the mall and the carpark in Tsz Wan Shan Shopping Centre captures the natural beauty of The Lion Rock.

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During the four months, we also completed smaller-scale improvements to enhance the shopping experience for customers. Washroom facilities in many centres have been upgraded and lighting and signage have been improved. Customer service counters have been installed, and customer service ambassadors introduced in 11 malls. These initiatives have received a highly positive response from tenants and shoppers. We have also installed air conditioning in some of our fresh markets.

Improvements to our carpark facilities include the installation of new non-slip finishes, additional signage, new cashier counters and more user-friendly lobbies that intercept with retail facilities. These improvements give carpark users a fresh impression of our facilities upon their arrival.

Improving Trade Mix

For any shopping centre to operate at its optimal potential, its trade mix must match and evolve with the demands of customers. The Link's focus is on moving towards an optimal trade mix for our neighbourhoods, one that meets the demands of customers whose homes are on the doorstep of our retail facilities.

During the four months, we introduced a range of popular shops and restaurants in many of our shopping centres. This has given shoppers from our neighbourhoods greater shopping and dining choices at affordable prices and a higher overall standard of customer service due to the example set for tenants by these new operators.

We have also made considerable efforts to ensure that tenants providing essential services are retained in our shopping centres. We have, for example, reversed the trend of a declining number of bank branches in our centres. Since

our take-over, eight bank branches and 16 ATM machines have been introduced to our shopping centres for the convenience of customers.

Our fresh markets remain part of the daily lives of many residents living in the adjoining estates. We will continue to focus on improving the cleanliness and hygiene at these markets.

Marketing and Promotions

Our first four months of operation provided ample opportunities for new marketing and promotional initiatives with Christmas, New Year and Chinese New Year falling within the period. We believe that promotions are not just a cost item, but can be profitable in themselves.

Promotions such as the *Snoopy and Friends 55th Anniversary Celebration* programme for Christmas and Chinese arts and crafts shows for Chinese New Year, resulted in a high level of publicity and drew visitors to a number of our shopping centres. These initiatives encouraged shoppers to return to our centres and boosted our corporate image as an innovative and customer-focused operator.

We have also made shopping centre atriums available to a wide range of product promoters. Their activities have made the shopping experience at our centres more lively and enjoyable and have generated extra income for The Link.

To create more synergy among our shopping centres, market stalls and carpark facilities, we launched a series of incentive parking promotions for shoppers at our retail facilities. Thousands of customers took advantage of the offer, and the promotions proved effective in attracting more patronage.



1. Officiating guests and popular singer Mr Leo Ku joined Snoopy and his Peanuts friends at a ceremony to kick off the "Snoopy & Friends 55th Anniversary", the world's largest celebration anniversary. The celebration included a series of programmes at our various shopping centres.
2. Named The Link Charity Star, pop star Ms Kelly Chen led a fundraising campaign at The Link's shopping centres this Spring. Shoppers who made donations received Snoopy Limited Edition Gift Sets, and the proceeds were donated to the Kelly Chen Children Education Fund.
3. The Peanuts/Snoopy Exhibition Hall showcased Peanuts cartoon drawings and collectable items over the last 55 years has attracted a great number of visitors.
4. As a major event to celebrate Chinese New Year, world-renowned paper sculpture artist Madam Lu Xue gave a demonstration of her paper-cut works on stage along with celebrity Mr Kwok Chun On.
5. Our Chinese New Year programmes included the performance at our shopping centres by the popular GuangXi Acrobatic Troupe.

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Efficiency and Cost-saving

Thanks to a more streamlined structure and operational enhancements, we have improved our operating efficiency and lowered our cost-to-income ratio. We will work to further improve our efficiency and will continue to benchmark our performance against best practice among our counterparts in the private sector.

For example, in our first four months, we actively reviewed the entire portfolio's energy needs, consumption patterns and equipment operating efficiency, and we conducted trial runs with energy-saving devices in a number of car parks.

Financial Highlights

Total revenue for the four months to 31 March 2006 was HK\$1,354 million, with income from retail facilities of HK\$968 million, income from carpark operations of HK\$305 million, and income from other sources of HK\$81 million. The proportion of revenue from shopping centres and car parks was approximately 77% and 23%, respectively.

Total Distributable Income to unitholders for the period amounted to HK\$467 million, 10% higher than the forecast of HK\$424 million stated in The Link's Offering Circular. As at 31 March 2006, the total market value of the properties in the portfolio amounted to HK\$35,772 million.

Expanding Horizons

Building on the groundwork we have laid so far, The Link looks forward to continuing to enhance its financial performance while delivering better value to customers and tenants.

Designed to serve the basic needs of public housing estate tenants, many of our shopping centres have the potential to capture a greater share of our neighbouring residents' spending. The key is to better cater to their daily needs

by delivering a wider and more attractive selection of products and leveraging our advantage in providing savings in customers' travel time. Some of our centres, with their strategic locations, also have the potential to attract a broader customer base from a wider catchment area. We are undertaking detailed research into the trade mix and placement of tenants at a number of these centres.

Looking Ahead

We will continue to locate and attract tenants that can draw shopper traffic and benefit other tenants. We plan to introduce more tenants in sectors such as leisure and entertainment, mass market fashion and food & beverage. These newly introduced popular shops will mix well with many of our existing tenants and provide more choices for shoppers.

In addition to major asset enhancements, we will continue to roll out specific measures to invigorate our retail facilities. These include:

- creating additional internal floor area by reconfiguring layouts and partitioning of new shop units;
- improving building services in our retail/market facilities to create a more pleasant environment;
- installing more customer service counters;
- enhancing lighting and finishes;
- improving directional signages; and
- upgrading washroom facilities.

We are aware that the task of moving ahead with the identified enhancement projects is a challenging one, and that renovations can be disruptive for both tenants and customers. We seek to undertake major work sensitively and in communication with stakeholders to minimise inconvenience.



1. Tenants are our partners in enhancing the appeal of The Link's shopping centres. Here (from left to right), Mr Alfred Cheung, owner of the Cousin Cousin Cafe, Mr Victor So, Chief Executive Officer and Mr Au Yeung Hau Cheong, General Manager (Leasing and Control), discuss improvements to the ambience of Hau Tak Shopping Centre.
2. Mr Yutaka Fukumoto, deputy managing director of Aeon Stores (Hong Kong) Co. Ltd, Mr Victor So and Mr Au Yeung Hau Cheong on a tour of Lok Fu Shopping Centre.
3. Mr Samuel Sham (centre), Director of Portfolio Management and Ms Cissy Tsang (right), General Manager of Portfolio Manager discuss the issues on customer traffic with a Customer Service Ambassador during an inspection tour of the Tsz Wan Shan Shopping Centre.

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Customer service is essential for successful shopping centres. In addition to installing customer service counters in more of our shopping centres, we will continue to provide thorough staff training in customer service. We also plan to take over management of some of our shopping centres but continue to outsource services such as cleaning, security and some customer service functions.

Encouraged by our success so far in marketing and promotion, we see significant scope to draw shopper traffic and further improve The Link's public profile with such activities.

In our carparks, automation will give us more useful management information, and we have plans to bundle shopping and hourly parking to drive further growth in shopper numbers. This strategy also leverages our strength as neighbourhood shopping centres that cater to the daily needs of our shoppers. By better utilising our parking facilities, we offer better service and value to shoppers who live within short driving distances from our facilities.

On the cost side, we expect savings in most major components, including utilities, property management fees, cleaning and security. The expiry of contracts is a prerequisite for implementation of these savings, and the effects will be realised in coming financial years.

I am pleased with the good start we have made, and I am confident that The Link will continue its strong performance as we implement our strategy to build value. Our Board of Directors, management and employees will continue to strive to achieve the best for our unitholders, tenants and the community.

SO Hing Woh Victor JP
Chief Executive Officer
The Link Management Limited as Manager of
The Link Real Estate Investment Trust

29 June 2006