

Management Discussion and Analysis

Operational Review

The Link REIT was established on 6 September 2005 and remained inactive until its listing. Operations of The Link REIT commenced on 25 November 2005, the date of its listing and acquisition of the retail and carpark facilities. The Link REIT was the first and largest Hong Kong REIT with a geographically diverse portfolio of 180 properties, comprising 149 integrated retail and carpark facilities, 2 standalone retail facilities and 29 standalone carpark facilities.

As at 31 March 2006, the portfolio provided an internal floor area of approximately 1,000,000 square meters of retail space and around 80,000 carpark spaces. The occupancy rate of the retail facilities was 91% as at the period end date. The utilisation rate for the carpark facilities, calculated as a percentage of total monthly tickets sold compared with the total number of monthly parking spaces available, was 72%.

The Manager

The Link Management Limited (the "Manager") is licensed by the Securities and Futures Commission to conduct the regulated activity of asset management and is responsible for managing The Link REIT's portfolio of 180 properties. As at 31 March 2006, the Manager had 288 staff. Key activities of the Manager include leasing, property management, investment and fund management and associated corporate services.

Leasing

During the period under review, the Manager adopted more flexible leasing strategies to attract new tenants. Approximately 100,000 square meters of floor space have been newly let or re-let, representing a monthly income of about HK\$27 million. The new tenancies are generally on three-year terms and many of them have turnover rent clauses. Many of the tenants are brand-name stores that are new to The Link REIT's shopping malls.

An integral part of the leasing strategy is the asset improvement plans. Many quick-fix improvements such as improvements to signage, lighting and washroom facilities are already underway. Major enhancements to selected shopping centres are in various stages of planning and implementation.

Property Management

The Manager continued to use external property management agencies to support daily operations such as security, cleansing and day-to-day tenancy management under property management service contracts. To improve the efficiency and quality of these services, the contracts will be re-grouped upon their expiry in June/July 2006. While several existing property management agencies will continue to provide services to The Link REIT under the new contracts, the Manager will work closely with them as a business partner to provide quality services to tenants and shoppers.



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Inspiring our people — our most important asset

1. Ms Angela Chiu, Senior Portfolio Manager (right) shares ideas on service improvement with a Customer Service Ambassador.
2. Shopping centre frontline staff are briefed by Ms Jolene Lo (right), Senior Portfolio Manager on customer courtesy before beginning their shift.

Major Real Estates Agents and Contractors

No commissions were paid to any real estate agents during the period under review. The aggregate value of service contracts of the top five contractors engaged by The Link during the reporting period was HK\$86 million.

Top Five Contractors

For the Relevant Period (from the listing date on 25 November 2005 to 31 March 2006), the top five contractors and their respective value of services rendered were:

Contractors	Nature of Services	Value of Services HK\$'M	% of relevant costs
China Overseas Property Services Ltd	Property management	23	6.2%
Vinci Park Services Hong Kong Limited	Carpark management	20	5.4%
Mack & Co. Carpark Management Ltd	Carpark management	16	4.4%
Sino Estates Management Limited	Property management	14	3.9%
Wenden Engineering Service Co. Ltd	Maintenance	13	3.5%
		86	23.4%

Financial Highlights

Revenue and Net Property Income

Revenue and net property income from the properties portfolio during the period were HK\$1,354 million and HK\$813 million, respectively. They exceeded the forecasts in the Offering Circular dated 14 November 2005 (the "Offering Circular") by HK\$22 million and HK\$43 million, respectively.

Total revenue was made up of HK\$968 million of retail rental, HK\$305 million of carpark income and HK\$81 million of other income. Retail rental was HK\$16 million higher than the forecast in the Offering Circular.

Net property income represented approximately 60% of total revenue, after the deduction of property management costs and other property operating expenses. The expenditure to income ratio improved from 42% as indicated in the Offering Circular to 40%.

	HK\$'M	% of Revenue
Property management costs	269	20%
Other property operating expenses	272	20%
Total property expenses	541	40%
Net property income	813	60%

Total Distributable Income

Pursuant to the Trust Deed, the Total Distributable Income is defined as the amount calculated by the Manager as representing the consolidated audited profit after tax attributable to unitholders of the Trust and its subsidiaries for the financial period, as adjusted to eliminate the effects of certain non-cash adjustments which have been recorded in the Consolidated Income Statement.

Non-cash income/gains such as “Change in fair values of investment properties” as they appear in the Consolidated Income Statement have been adjusted to eliminate the effects of such adjustments as defined in the Trust Deed. Total Distributable Income was HK\$467 million, after deducting General and Administrative Expenses, Finance Costs and Taxation.

Distribution

The Manager’s policy is to distribute to unitholders 100% of The Link REIT’s Total Distributable Income for the financial period ended 31 March 2006, which amounted to HK\$467 million. The distribution per unit is HK\$0.2181 in respect of the period from 25 November 2005 to 31 March 2006, representing an annualised distribution yield of 6.09% based on the final offer price of HK\$10.30.

The register of unitholders will be closed from 17 August 2006 to 23 August 2006, both days inclusive. The distribution to unitholders will be effected on 30 August 2006.

N.B. As indicated in the Offering Circular, the forecasted distribution was HK\$0.1983 per unit, representing an annualised distribution yield of 5.53% based on the final offer price of HK\$10.30 per unit, or 5.83% based on the discounted Hong Kong public offer price of HK\$9.78 per unit.

Balance Sheet Highlights

Investment Properties

Pursuant to the Property Agreement with the Hong Kong Housing Authority in respect of the acquisition of the retail and carpark facilities, upon completion, The Link, as beneficial owner and by virtue of the Property Agreement, is legally entitled to and will be in a position to operate the acquired properties as if it was the legal and beneficial owner.

Property Valuation

As at the period end date, The Link REIT's property portfolio has undergone a revaluation on a market value basis and recorded a revaluation gain of HK\$1,949 million as compared with the valuation as at 30 September 2005. CB Richard Ellis Limited ("CBRE"), an independent firm of professional valuers, have primarily used two methodologies, the discounted cash flow analysis and the income capitalisation approach, supported by the direct comparison method, in arriving at the market valuation for each individual property in the portfolio.

The movements of fair values are tabulated below:

	Retail properties <i>HK\$'M</i>	Carparks <i>HK\$'M</i>	Total <i>HK\$'M</i>
At beginning of the financial period	—	—	—
Acquisition of retail & carpark facilities	27,257	6,545	33,802
Additions	20	1	21
Change in fair values	1,821	128	1,949
At end of financial period	29,098	6,674	35,772
% change	+6.8%	+2.0%	+5.8%

Financial Structure

The total proceeds from the listing amounting to HK\$21,634 million and a debt financing of HK\$12,169 million formed the total consideration of HK\$33,803 million for the acquisition of the retail and carpark facilities from the Hong Kong Housing Authority. As at the period end date, The Link REIT had a loan facility of HK\$12,500 million, of which HK\$12,169 million was drawn down on the listing date. The facility is a bridging loan with a one-year term, repayable on or before 27 November 2006. The remaining undrawn portion of HK\$331 million represents a revolving credit facility for the financing of discretionary capital expenditure that The Link REIT may incur in relation to major renovations, improvement works and other value-enhancing strategic initiatives.

Credit Ratings

In June 2006, The Link REIT has been assigned with the following credit ratings by two credit rating agencies:

Standard and Poor's	"A" rating with a Stable outlook
Moody's Investor Services	"A3" rating with a Stable outlook

Loan to Asset Ratio

The total borrowings of The Link REIT represented 30% of the total gross asset value of The Link REIT at the period end date, after a valuation exercise conducted by CBRE for the properties portfolio, the result of which has been reflected in the valuation report and audited accounts.

Gross Liabilities and Net Assets

As at 31 March 2006, gross liabilities (excluding net assets attributable to unitholders) accounted for HK\$16,976 million, or 42% of total gross asset value.

As at 31 March 2006, net assets attributable to unitholders were HK\$23,715 million, or HK\$11.09 per unit.

Cash Position

As at the period end date, The Link REIT had cash balances and bank deposits totalling HK\$767 million with maturities well planned to satisfy its financial commitments and working capital requirements. The Manager has adopted a principal preservation approach in cash management to ensure flexibility to meet the operational needs of The Link REIT.

Re-financing

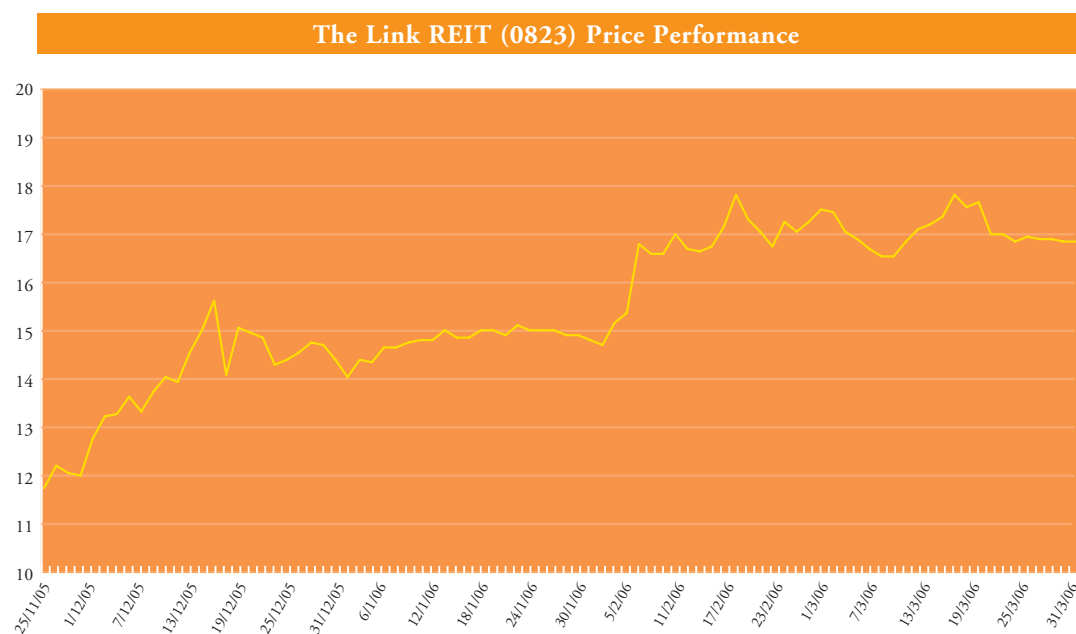
The Manager is considering various financing options available to refinance the bridging loan facility of the HK\$12,500 million put in place at the time of the Global Offering. A suitable combination of financing alternatives will be utilised based on The Link's specific circumstances, and the pricing, terms and maturity profile offered. This will facilitate the implementation and on-going monitoring of risk management policies and treasury operations.

Unit Activity

Units in Issue

Upon listing on 25 November 2005, a total of 2,137,454,000 units were issued. During the period under review, the units have been actively traded. The closing price as at 31 March 2006 was HK\$16.80, representing a premium of 63% over the subscription price of HK\$10.30.

The closing price also reflected a premium of 51% on the net asset value of HK\$11.09 per unit.



Portfolio Highlights



Three Completed Asset Enhancement Projects

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Tsz Wan Shan Shopping Centre

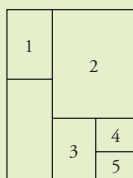
1. Part of the atrium has been converted into a new food & beverage area, offering additional dining choices for shoppers.
2. We have brought in a variety of trades, including a family entertainment centre for the whole family to enjoy.
3. Washroom facilities were upgraded as part of our efforts to offer a clean and pleasant shopping environment.
4. We encourage innovative and open shop fronts.
5. New tenants in this shopping zone offer more choices and fun for shoppers. Many popular retailers made their debut appearance with The Link in this mall.
6. A new signage system has been introduced.
7. Lighting has been upgraded to enhance the shopping environment.





Lung Cheung Mall

1. The former under-utilised zone has been converted into new retail space, providing additional lettable area.
2. Contemporary specialty food outlets have been introduced, enriching the trade mix of the centre.
3. The colourful lightbox decoration in the atrium has become a popular meeting point for shoppers.
4. This newly renovated drop-off point in the new shopping zone allows tourists to wait for their buses in air conditioned comfort.
5. Mr Paul Cheng, Chairman visits the newly completed retail space with Mr Ball Wong, Director (Project and Planning).



Portfolio Highlights



Hau Tak Shopping Centre

- 1 & 3. Modern decor has been created to improve the shopping environment.
- 2. The atrium's ceiling has been made more energy efficient by taking advantage of natural light.
- 4. New glass balustrade gives excellent visibility to shoppers.
- 5. Better utilisation of space with a tailor-made layout for a new desert shop.

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Five More
Asset Enhancement
Projects
Planned



Stanley Plaza

Enhancements will include new facade treatment, modernisation of the covered walkway and a new intercepting lobby for the carpark and shopping arcade. The proposed works will improve the centre's overall appearance and image and attract more patrons.

Lok Fu

The planned enhancement will give the centre a modern appearance and an improved entrance. Minor enhancements to common areas will also take place with minimum impact on tenants' business.

Choi Ming

Lettable areas will be more efficiently used and the shopping areas will be enhanced.

Chung On

This shopping centre in Ma On Shan will undergo a number of improvements, including shop-front realignment and entrance relocation for a better internal layout and shopper circulation.

Tai Wo

Some of the retail areas will be converted into a new food & beverage zone. The interior finishing will also be upgraded gradually.

Portfolio Highlights



Lok Fu Shopping Centre

- The Link portfolio's largest shopping centre
- Conveniently located in Kowloon Central



Wong Tai Sin Shopping Centre

- Next to Wong Tai Sin Temple, a major tourist attraction
- Linked by a footbridge to Lung Cheung Mall to create synergy as an integrated mega mall
- Next to Wong Tai Sin MTR Station



Lung Cheung Mall

- Next to Wong Tai Sin MTR Station
- Integrated with Wong Tai Sin Temple Plaza, and just minutes away from one of Hong Kong's most popular attractions, Wong Tai Sin Temple

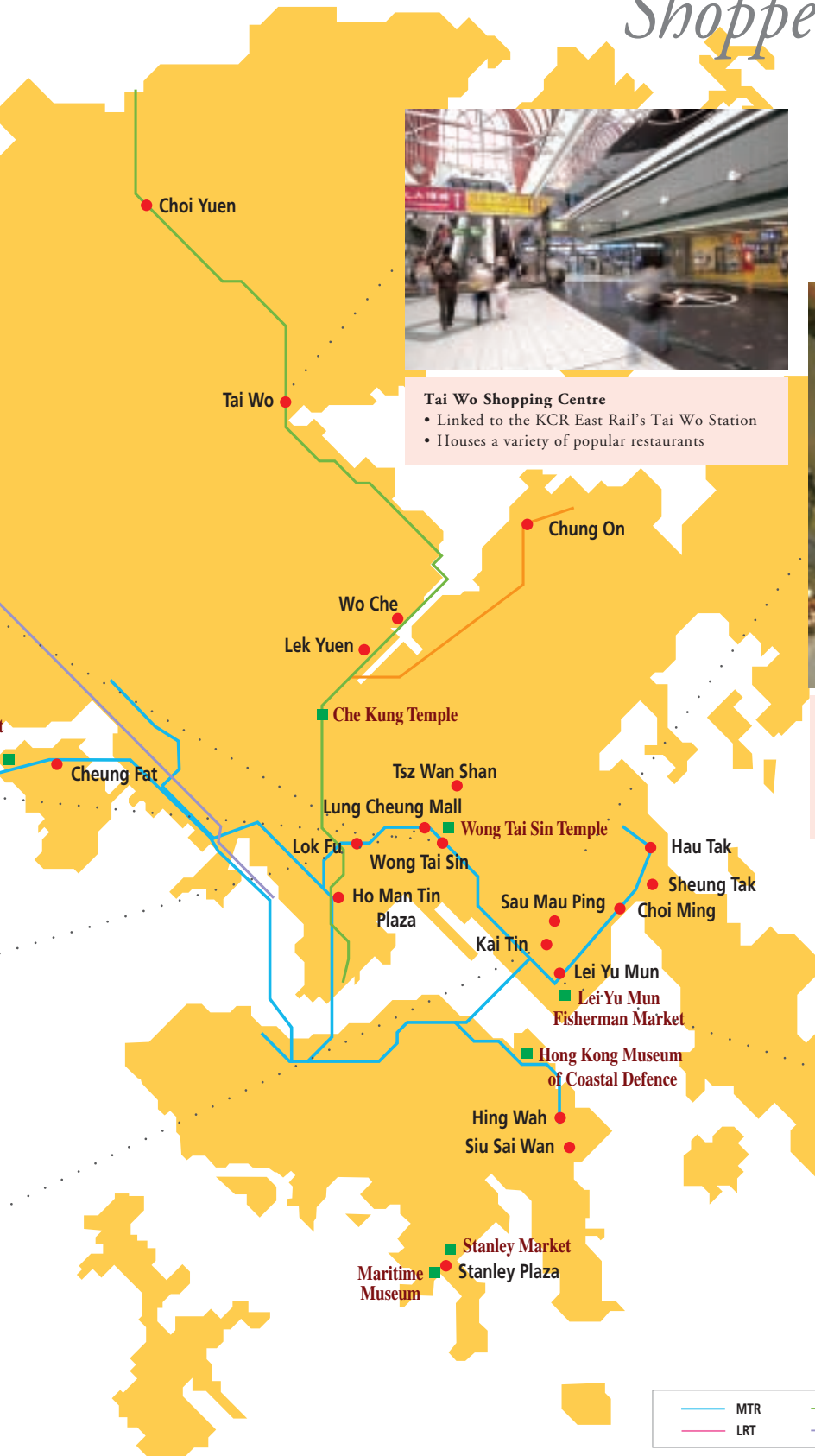


Kai Tin Shopping Centre

- Located in the heart of Lam Tin
- Linked by a covered walkway to Lam Tin MTR Station and the public transport interchange



Our Major Centres *Linked to* Shoppers Across the City



Tai Wo Shopping Centre

- Linked to the KCR East Rail's Tai Wo Station
- Houses a variety of popular restaurants



Sau Mau Ping Shopping Centre

- Brings pride and joy to shoppers around Kwun Tong
- Winner of the Hong Kong Institute of Architects Urban Design Special Architectural Award in 2003



Lei Yue Mun Plaza

- Convenient for our neighbours in Yau Tong and Lei Yue Mun
- Offers a wide variety of shopping and dining choices
- Linked to Yau Tong MTR Station

MTR	KCR East Rail	Ma On Shan Rail
LRT	KCR West Rail	

- Major centres in The Link's portfolio
- Major attractions

Portfolio Highlights



Facility Improvements

1. A customer service ambassador is coached to use new facilities to serve our shoppers better.
2. Washroom facilities in many of our shopping centres have been upgraded, and are frequently checked by our staff.
3. We are progressively improving directional signage for the convenience of shoppers.
4. All enhancements are carefully planned to ensure that shoppers' needs are met.
5. The ramp and shopping walkway at Oi Man Shopping Centre has received a facelift to provide customers with a better shopping environment.
6. At Ka Fuk Shopping Centre, we have revamped the external finishes for a more pleasant appearance.

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Tenants Views



“ Since The Link took over, the shopping centre has attracted more youngsters and students, expanding its customer base. As a result, shops have also introduced more trendy merchandise. We believe The Link will step up its efforts to attract more consumers and improve shopper traffic by organising more promotional activities in the shopping centre. ”

2% Fashion Boutique — Tsz Wan Shan Shopping Centre
Mr Steve Lam, Shop Manager

“ Besides improving the shopping centre’s facilities, The Link has rented out a lot of retail space that was previously left vacant. In doing so, it has introduced a greater variety of trades and created a more dynamic business environment. ”

Hair Salon — Po Tat Shopping Centre
Mr C.C. Cheung, Shop Operator



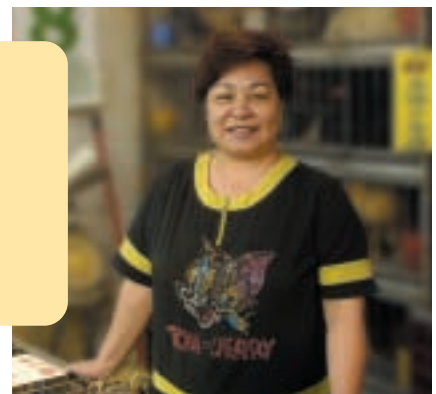
“ I am very satisfied with the way The Link manages the shopping centre. Under The Link, the shopping centre is kept clean and tidy, and the management team is keen to listen and quickly respond to tenants’ views. The Link’s shopping centres are as well-managed as other centres in Hong Kong. ”

Par Wong Lane - Sau Mau Ping Shopping Centre
Mr Andrew Lee, Managing Director



“ Facilities at the fresh market have been upgraded. Security and cleanliness have improved. I hope to maintain constant dialogue with The Link and work as a partner with them. ”

A Market Stall at Lok Fu Fresh Market
Ms L.H. Tsang, Stall Operator



Portfolio Summary

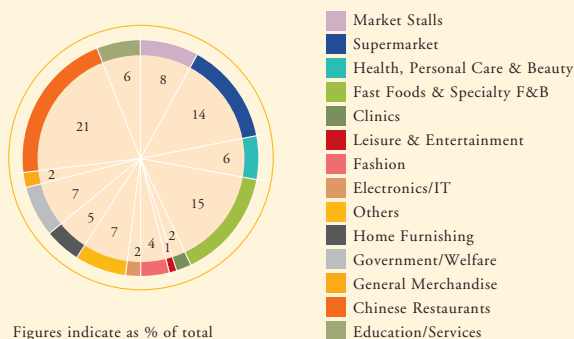
Portfolio Overview

Our 10 largest properties generated around 22% of gross revenue

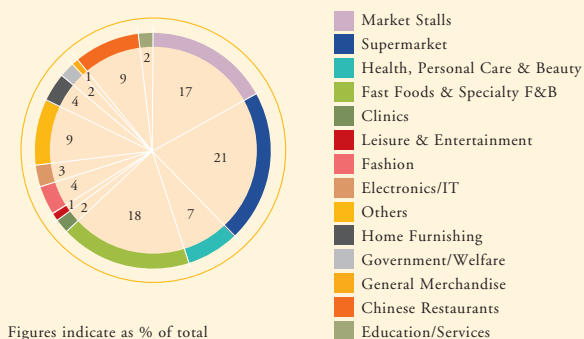
Retail and Carpark Operations (by estate)	Rental income from Retail Operations HK\$'M	Gross receipts from Carpark Operations HK\$'M	Total Revenue HK\$'M	Revenues (%)	Cumulative % of Revenues (%)
Top 10 Properties					
Lok Fu	48	4	52	3.8	3.8
Tin Chung (Chung Fu Shipping Ctr)	34	3	37	2.7	6.5
Tsz Lok (Tsz Wan Shan SC)	27	6	33	2.5	9.0
Sau Mau Ping	33	0	33	2.4	11.4
Sheung Tak	25	5	30	2.2	13.6
Kai Tin	23	2	25	1.9	15.5
Upper Wong Tai Sin (Lung Cheung Mall)	22	2	24	1.8	17.3
Tin Chak	21	1	22	1.6	18.9
Hau Tak II	19	4	23	1.7	20.6
Lower Wong Tai Sin II (WTS SC)	18	4	22	1.6	22.2
11-40	387	77	464	34.3	56.5
41-85	283	85	368	27.2	83.7
86-180	109	112	221	16.3	100.0
Total	1,049	305	1,354	100.0	100.0

Retail Overview — Diverse Tenancy Base

Trade Mix by Leased IFA

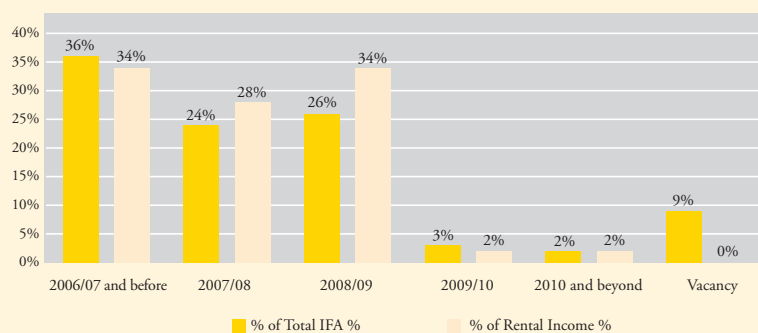


Trade Mix by Monthly Base Rent



Lease Expiry Profile










Lease expiries are reflective of the length of typical rental agreements, which is three years.



Tenant and Lease Profile

Our biggest tenants (in terms of monthly base rent) of the Retail Facilities account for 32.2% of the total monthly base rent.

Top 10 Tenants of the Retail Facilities

Tenant		Trade Type
The Dairy Farm Co. Ltd.		Supermarket, health and beauty, convenience store
A.S.Watson Group (HK) Ltd.		Supermarket, personal care, wine cellar
McDonald's Restaurants (HK) Ltd.		Food & beverage operator
Maxim's Caterers Ltd.		Food & beverage operator
Goldrise Investment Ltd.		Single operator market
Café De Coral Holdings Ltd.		Food & beverage operator
Wang On Majorluck Ltd.		Single operator market
China Resources Vanguard (Hong Kong) Company Ltd.		Supermarket, personal care
Circle K Convenience Stores		Convenience store
Fairwood Fast Food Ltd.		Food & beverage operator

	No. of outlets	IFA (sq.m)	% of total IFA	% of leased IFA	% of total monthly base rent
Top 10 Tenants	499	196,353	20.4%	22.4%	32.2%
Other Tenants	8,479	681,250	70.6%	77.6%	67.8%
Leased Tenants	8,978	877,603	91.0%	100.0%	100.0%
Vacancy	1,992	86,827	9.0%	N.A.	0.0%
Overall	10,970	964,430	100.0%	N.A.	100.0%

Carpark Facilities Overview

- Largest carpark facilities portfolio held by a single owner in Hong Kong
- Around 80,000 carpark spaces — approx. 13% of Hong Kong’s total supply
- 149 carpark facilities integrated with retail facilities and 29 standalone carpark facilities

